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# Agenda: Jobs and Growth

Improving  
Social Security  
in Canada

*A Discussion Paper*



Government  
of Canada

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Canada



# Improving Social Security in Canada

A Discussion Paper



Government  
of Canada

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Canada



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For additional copies, or an alternate  
format, please contact:

Enquiries Centre  
Human Resources Development Canada  
140 Promenade du Portage  
Phase IV, Level O  
Hull, Québec K1A 0J9  
Fax: (819) 953-7260  
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# Preface



*A strong economy is the essence of a strong society. My government will focus on a jobs and growth agenda. We will work with all our partners — provincial governments, business, labour, voluntary groups and individual Canadians.*

Prime Minister Jean Chrétien  
Québec City, September 18, 1994

In Québec City on September 18, the Prime Minister outlined four key components of the government's jobs and growth agenda:

- reforming social security;
- ensuring a healthy fiscal climate;
- reviewing government programs and priorities; and
- strengthening the performance of the Canadian economy in investment, innovation and trade.

*Improving Social Security in Canada* is a paper designed to give Canadians an opportunity to participate in the shaping of a crucial element of that agenda — the rebuilding of our social security system.

Clearly, our economic and social priorities are interdependent. We cannot create jobs and growth without modernizing our social, labour market and learning programs. Nor can we have a viable social system without economic health and stability. The challenge becomes one of linking efforts, of combining resources to help Canadians find and keep jobs, while at the same time protecting those who are vulnerable and disadvantaged.

My hope is that Canadians will respond to this invitation in an open, thoughtful and constructive way. The status quo is not good enough. Defending special interests will not work. We must tap into the good will that exists throughout the country to forge agreement on direction and develop the will to change.

My commitment is to listen to and work with all Canadians, different governments, groups and organizations so that we can develop in partnership a social framework that makes sense, is effective and is founded on the basic Canadian values of compassion and justice.

I invite you to join in the discussion and debate.

Lloyd Axworthy

Minister of Human Resources Development

# Introduction

Canada's social security system is a hallmark of our nation. Through it, we have defined ourselves as a country that aspires to give our children the best possible start in life, to enable all Canadians to meet their basic needs, and their families to live with dignity. It is a system dedicated to supporting the most vulnerable in our society, while creating opportunity for all Canadians to improve their lives. Social security embodies the values of justice, tolerance and compassion that mark our country.

This system is the product of a wide network of federal and provincial policies and programs. In some areas, such as unemployment insurance and old age security, the federal lead is clear. In others, such as education, social assistance and social services, the jurisdiction is provincial, often with federal financial support. In still other areas such as labour market training, both levels of government have been active. In many instances, the same individual moves back and forth through the range of services offered by different governments.

Overall, our social security system has been a success, and a source of pride in being Canadian. Together, Canadians have built and sustained a system that is envied in much of the world. It has helped make life better for generations of our citizens. Now it is our task to make sure that it continues to help our children as they grow, to protect those in need, and to offer hope and opportunity for the future.

But the world has changed faster than our programs. In the last decade especially, the sheer relentless force of technological, economic and social change has reshaped our lives and our livelihoods. Government policies and approaches have been too slow in responding. Social security reform is a matter of making choices together about how best to build a social security system for the 21st century.

## The context of change

Unemployment Insurance offers a prime example of how programs have lagged behind the pace of economic change. It was designed to help people who lost work by replacing their earnings while they looked for another, similar job. Now, more and more people are finding that they haven't just lost a job, they've lost an occupation, career or industry, victims all to economic change. Many won't find a similar job again. Not only do they lose income; they are denied the dignity of work. A system that pays people to look for a job similar to the one they lost sometimes simply helps them to find what they can — part-time, low-paying, unskilled jobs. Yet don't we as a society have a stake in doing more, in helping people who suddenly find their job skills inadequate and out-of-date to retool themselves for the good jobs in today's economy?

What about Canadians with disabilities? Our systems often wrongly pigeon-hole this group of citizens as unemployable, when technology and economic change have opened up for them new possibilities for participating in the workplace. Trapping people in dependency is both costly and cruel. Our institutions, services and programs must serve people better.

What about children, the future of our country? We must pay attention to a 1993 report of the United Nations Committee on Economic, Social and Cultural Rights which concluded that Canada has simply not done enough to overcome child poverty. Clearly there is a message to us in that stark assessment.

One of the biggest challenges we face today is the affordability of our programs. During the 1950s and 1960s, an industrializing, resources-rich Canada became accustomed to year after year of fast-paced growth — much as Japan experienced an extended economic boom during the 1970s and 1980s. Government revenues expanded accordingly. There was no reason to imagine the economic miracle would falter and that economic growth would cool.

Yet starting in the mid-1970s, that's exactly what happened. As government revenue growth slackened accordingly, we made up the difference by borrowing. For two decades, as a society we consumed increasingly more than we produced — on credit. The result is one of the highest levels of government debt, proportionately, in the world. Combined, federal and provincial government debt is equivalent to over 98 per cent of the entire annual value of the nation's economy. The interest costs on that debt are choking governments' ability to deliver services that the public needs and depends on. Consider: in 1980-81, interest payments by the federal and provincial governments absorbed 15 cents of every dollar of revenues; today it has grown by two-thirds to about 26 cents. The larger the debt gets, the bigger the interest costs and the smaller the budget for services. If the next generation of Canadians is to obtain reasonable government services for the tax dollar, we must change our approach.

The status quo is not an option. Changes in our economy, in our families, in our workplaces, in our communities, and in the financial standing of our country are too dramatic to allow us to tinker at the edges of social policy and

programming. The fact is that Canada's social security system needs to be fixed. It is an important task, something all Canadians will be asked over the coming months to consider carefully and participate in. This generation must use its ingenuity to rebuild our social programs for a new era, just as an earlier generation after the Second World War forged solutions to meet the social needs of the post-war world.

## What sort of change?

Undeniably, the “social safety net” we built over the past several decades helped make Canada one of the world’s most successful countries, rich in prosperity and opportunity. Programs such as unemployment insurance, social assistance and social services, child benefits, universal pensions and a national network of widely accessible colleges and universities have made our nation a beacon of civilized values. Those values of compassion, ensuring the basic necessities of food and shelter for all, and sharing opportunity are at the heart of the social security system we’ve inherited. As we undertake the job of redesigning and modernizing it, we must preserve those values.

Yet we must do something more, as well. The next generation of social programs must not just share the wealth, and protect those who are disadvantaged among us, they must actively create opportunity for Canadians and, in so doing, help drive economic growth. By helping to equip Canadians with the skills to excel in today’s — and tomorrow’s — Information Age, our social security system can play a vital role in turning Canada’s shrinking middle class into an expanding one again.

In the past 15 years, mounting worldwide competition and technological change have hurt the big manufacturing plants and resources-based industries that for decades paid the high wages that allowed many Canadians to enjoy prosperity. In recent years, plant closures, layoffs and wage freezes have eroded our standard of living, and created a new and insidious insecurity for many people. As hundreds of thousands of these individuals have prematurely lost their livelihoods, swapping unionized, secure factory jobs for the unemployment rolls or part-time, low-paying jobs in the services industry, while towns have been hurt and, nationwide, a key pillar of economic growth — consumer purchasing power — has begun to be weakened. As too many older workers and young families have been squeezed out of the middle class, our society increasingly has begun to be polarized between well-educated, highly-skilled Canadians in demand by employers — today’s economic elite — and less educated people without specialized, up-to-date job skills, who have been losing ground.

Thus, the key to dealing with social insecurity can be summed up in a single phrase: helping people get and keep jobs. This means many things, from action to improve the business climate for entrepreneurs, to getting the government’s finances in order. A centrepiece of improving employment prospects is

“The next generation of social programs must not just share the wealth, and protect those who are disadvantaged among us, they must actively create opportunity for Canadians and, in so doing, help drive economic growth.”

helping people to gain and sharpen the up-to-date skills needed to succeed in today's job market. Increasingly our competitors are not the enterprises and workers down the street or in the next province, or even across the border, but those across the ocean, for example, in the Pacific Rim or Europe. In our world, computer-literate automobile diagnosticians are replacing car mechanics. Skilled technicians are watching over the robotic machinery performing the work production-line employees and clerical workers used to do. Jobs today need more education and training than ever before. If we seriously want to cut unemployment and recharge our economy, we must focus our resources on improving the ability of young people to enter the labour market, and of adult workers to adjust to workplace change.

To make the most of our future, we need more jobs. And that means pulling in more investment from inside Canada and abroad to create jobs. We need to be an investment magnet. Key to this is to overcome Canada's "skills deficit" — to offer the best-educated, best-trained workforce in the world, and that must be our common goal in the coming years.

## Objectives for reform

Today's social security system doesn't deliver enough of what Canadians need, and spends too much money in the wrong places. Building on important social reforms already launched by several provincial governments, this government is eager to play its role, searching with its provincial partners, the private sector and individual Canadians for the best ways to achieve three main objectives:

- **jobs** — helping Canadians get and keep work by ensuring that we have the knowledge and skills to compete with the best labour forces in the world.
- **support for those most vulnerable** — providing income support for those in need, while fostering independence, self-confidence and initiative, and starting to tackle child poverty.
- **affordability** — making sure the social security system is within our means and more efficiently managed, with a real commitment to end waste and abuse.

This is an ambitious agenda. Just as putting today's social safety net in place took decades to complete, a durable, dynamic "new generation" social security system will have to be constructed step by step. Reform cannot be accomplished overnight. We will have to navigate uncharted waters, testing new ideas and learning by doing. New solutions, once defined, will take several years to implement properly, and will likely require phasing in. The availability of funds will also govern the timing of the reform agenda.

The indispensable starting point is for Canadians to decide on a plan and to establish a framework that will give direction to social security reform as we prepare for the 21st century. This will not be easy, as there are many compet-

ing, complex forces at work. First, we must hold a vigorous debate around the nation. To provoke ideas and interest, this Discussion Paper introduces a number of ideas for addressing options for reform in three broad areas: ***working, learning and security***.

Discussion of social security for seniors and the health care system, two important components of Canada's social security system, are outside the scope of this Discussion Paper. This is because they are not linked to our central theme: how to improve opportunity and access to jobs for Canadians.

## **Partners in reform**

This Discussion Paper presents the federal government's ideas for improving and modernizing the federal dimension of Canada's social security system. The fact is that the problems faced by Canadians in seeking opportunity and security in a rapidly-changing world seldom conform neatly to the jurisdictional responsibility of either level of government. Crucial elements of the system, notably education and social assistance, are the mandate of provincial and territorial governments. The federal government has no intention of intruding where it should not. But both levels of government have a stake in social security reform. Both levels of government need to focus on what people need, and each must bring to the table what it can. The federal government is committed to working with the provinces and territories so that reform of federal and provincial programs is mutually reinforcing. This is what federalism is all about.

Ultimately, of course, neither the federal nor the provincial governments own the issues laid out in this Paper. They are the domain of employers, workers, communities, voluntary groups, families and the individual. While governments can and must provide leadership, they must answer to the people. All Canadians must share in finding the solutions we need to the problems of working, learning and security in the 1990s and beyond. This is an essential task to complete, if we are to preserve a social security system worthy of Canadians and equal to the times.

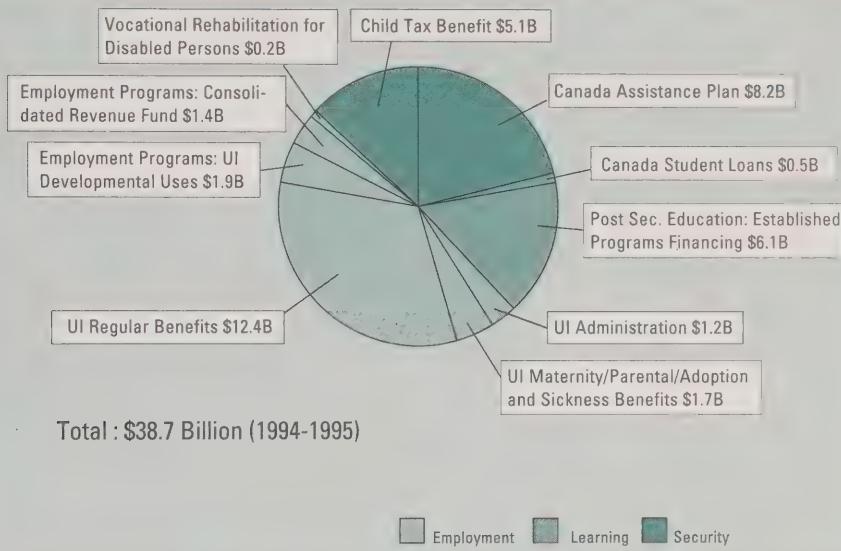
## Social security programs in Canada

The foundations of Canada's social security system were laid after the Great Depression and the Second World War. From the 1940s to the 1970s, successive federal and provincial governments tackled social injustice and economic insecurity.

Today, the "social safety net" comprises a wide range of federal, provincial and joint federal-provincial programs. Other than Old Age Security, the Guaranteed Income Supplement, the Canada Pension Plan and federal support to health care which are outside the scope of this review, ***the most important federal components are:***

- Unemployment Insurance, introduced in 1942 and expanded significantly in 1971
- Child benefits, principally the Child Tax Benefit (including the Working Income Supplement), which replaced Family Allowances and other tax measures in 1993
- Canada Student Loans Program, introduced in 1964
- Federal support for post-secondary education, which is delivered through financial transfers to the provinces (Established Programs Financing), and which expanded rapidly after new legislation in 1967
- Canada Assistance Plan, created in 1966 to support provinces in the provision of social assistance and services
- Vocational Rehabilitation of Disabled Persons program, introduced in 1961
- Federal support for employment, which expanded rapidly after new legislation in 1967, and more recently through Developmental Uses under Unemployment Insurance, and the Canadian Jobs Strategy

Federal expenditures on these programs for 1994-1995 are illustrated in the chart on the following page.

**Major Federal Expenditures on Social Security Programs, 1994-1995**

Source: Main Estimates 1994-95, HRDC Projections

# The context of reform

It is not clear whether the reform movement in the United States has been successful. The movement has been successful in some areas, such as the reduction of the number of deaths in the United States. However, the movement has not been successful in other areas, such as the reduction of the number of deaths in the United States.

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## **The world of work**

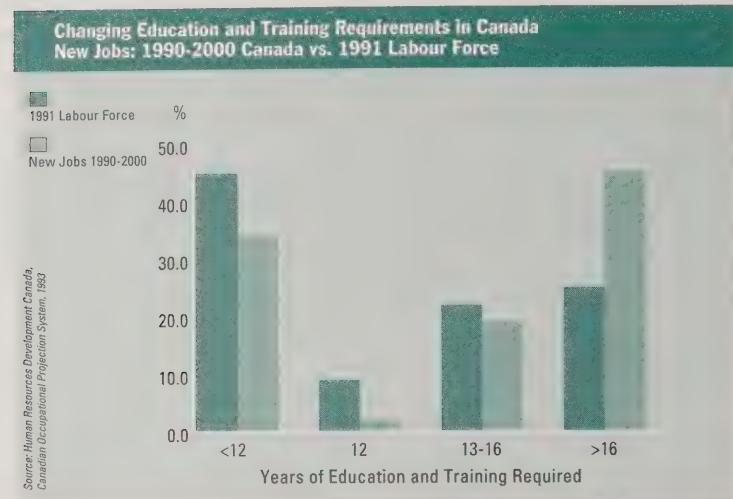
The changes sweeping through society are being driven by a fundamental reshaping of the economy in Canada and around the world. At the root of this reshaping, technological innovation is transforming the way we work and do business. Most striking are personal computers. Ten years ago these devices were novelties; today they are indispensable. Other technologies, also based on the microchip, are revolutionizing manufacturing, with robots and computer-directed processes increasingly predominant. Telecommunications technology is experiencing spectacular advances in speed and efficiency, allowing instant contact virtually anywhere on the globe. In all these areas, the speed of operation is constantly accelerating, altering our very sense of the rhythm of work.

This “microchip revolution” has contributed to a broader phenomenon, usually described as the “globalization” of the economy. Investors can now move billions of dollars of capital between continents in seconds. Production is increasingly rationalized on a global scale with multinational corporations assigning various component manufacturing and assembly operations to wherever the cost-effectiveness is greatest. Liberalization of trade and investment policies world-wide has complemented and accelerated the trend.

Consequences in Canada are numerous. Notwithstanding the fluctuations of the business cycle, in the long haul unskilled and labour-intensive manufacturing is declining here as Third World producers expand. Services and knowledge-based industries are the major areas of economic growth. However, these areas are increasingly polarized between the highly-skilled technicians, for example, who participate in designing the computers we use, and the jobs in such areas as fast foods. Overall, economic change is continuous and much more rapid than even a decade or two ago.

The *nature* of work is changing as a result. There are two major aspects of this. First, on average, the skills levels required in the workplace are rising, with specific skills changing continuously.

The following chart illustrates the projected occupational skills requirements from 1990 to the year 2000, compared with the 1991 labour force.



As the chart shows, nearly half (45 per cent) of the new jobs created in the 1990s are expected to require more than 16 years of education and training. What cannot be shown so easily on a chart is that people operating at this skills level must expect to renew those skills regularly. As anyone who works with a computer knows, for example, every year or so there are new computers and new software to be deciphered.

At the same time, work is becoming less permanent, providing less security but potentially also more individual freedom. Indeed much of the job creation over the past fifteen years has been part-time. Today, about four of every ten jobs in Canada fall outside the traditional full-time, 40 hours a week mould. This contrasts with the situation as recently as 1976 when over 70 per cent of jobs offered standard work hours.

Overall, the Canadian economy has been very successful in generating jobs. Between 1971 and 1993, the number of jobs rose from 8 million to over 12 million. Even allowing for recessions, the ratio of employment to population in Canada rose from about 55 per cent in the late 1960s to 58 per cent in 1993. Between October 1993 and August 1994, over 270,000 jobs have been created in Canada.

Nevertheless, unemployment has been persistent. More worrying, it has risen steadily from decade to decade since the Second World War. This point is illustrated in the chart on the next page.

An apparent decoupling of economic growth from job growth now seems to afflict most advanced industrial countries. Total unemployment was fairly stable between the 1950s and the early 1970s in the 24 countries then belonging



to the Organization for Economic Cooperation and Development (OECD). Since then, the unemployment total has more than tripled, with steep increases in the early 1980s and the early 1990s. Canada, with a current unemployment rate of just over 10 per cent is comparable to the European Union, where unemployment averages 10-11 per cent.

Much of what we are seeing is structural unemployment; that is, it is not much affected by the ups and downs of business cycles. In the past decade, the service sector has expanded, while traditional manufacturing and resource sectors have stagnated or shrunk. As a result, many Canadians who formerly enjoyed steady employment with the same employer, perhaps punctuated with occasional layoffs as the business cycle fluctuated, are finding themselves permanently displaced from certain sectors or occupations. Too often, they live in regions or communities with few alternative employment opportunities. They are the victims of structural unemployment.

Those losing their jobs are also finding it more difficult to locate other work. Last year, 13 per cent of unemployed Canadians had been out of work for a year or more. That is three times the level of long-term unemployment in 1976. In Europe, long-term unemployment has become an even more serious problem. In Britain, for example, 33 per cent of the unemployed are long-term.

Long-term unemployment in Canada is particularly pervasive among certain groups, such as Aboriginal people, persons with disabilities, or those in regions dependent on a single industry or resource. For example, the unemployment rate for Aboriginal people is roughly twice that of the rest of the Canadian population. Aboriginal communities have identified employment and economic development issues as a priority for reform.

Youth unemployment is another world-wide phenomenon in which Canada shares. In 1993, 18 per cent of Canadian youth in the labour force were unemployed, much higher than the average rate. In some European countries the rate is as high as 30 per cent. Interestingly, the countries with the lowest youth unemployment rates, Austria and Germany, have comprehensive apprenticeship programs.

For too many of those who find jobs, the jobs do not last long. Almost 40 per cent of the people on Unemployment Insurance in 1993 had claimed UI benefits at least three times in the previous five years – and the number is rising. The number of such “frequent claimants” has almost doubled between 1980 and the early 1990s. Details are given in the chart on p. 44.

Even for those who have managed to escape the unemployment rolls, the world of paid work is not the stable place it was just 20 years ago. No one is sheltered from the changes sweeping through the economy. Gone for many is the idea of “lifetime employment” with a single employer, once the automatic reward for hard work and loyal service. Reflecting the high degree of fluidity that now characterizes the world of work, in any given year up to one-quarter of all employees have been in their jobs for a year or less.

Another big change absorbed by the world of work during the past two decades has been the steady rise in the number of women entering the paid labour market. The typical nuclear family of the 1950s and 1960s — Mom, Dad and the kids, with Dad working in paid employment and Mom working to support the family’s needs in the home — is now in a minority. Today for more than 70 per cent of all married couples with children, both partners work outside the home. The participation of women in the paid labour force has provided enormous gains to both women themselves and to society. But the sheer magnitude of the shift has also posed new challenges for families, communities and governments to make the necessary adjustments for child care and family-friendly work arrangements.

While the word “work” is traditionally used to mean paid work, Canadians and their governments are increasingly recognizing the value and contribution of unpaid work to the well-being of Canadians. Women continue to carry the largest share of these unpaid responsibilities. A 1992 survey showed that nearly 75 per cent of all working women in dual-earner families with a youngest child under ten suffered what is called “time crunch stress”, a stark illustration of the growing problem women face reconciling the demands of work and family.

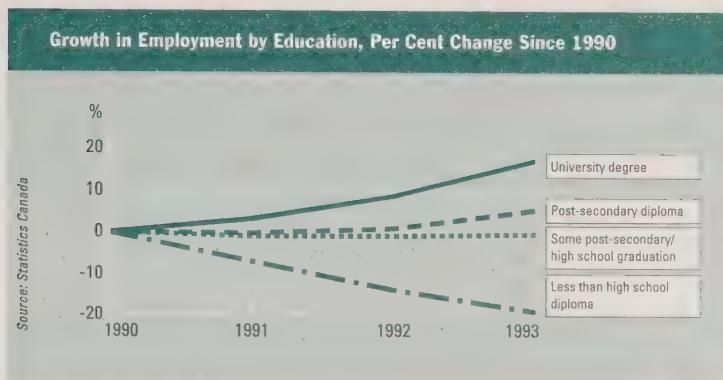
## The world of learning

The key to getting — and keeping a job — in the workplace of tomorrow will be up-to-date skills. This requires a continuing commitment to education and training from individual Canadians, employers, and governments. If Canadians are to regain a measure of security in the tumultuous, uncertain new world of work, their world of learning will have to catch up. Adapting to technological and economic change is the biggest challenge facing the world of learning.

Job openings today require higher levels of education as well as more advanced and specialized skills. Even many lower-skill jobs that once required

only basic schooling now call for high school graduates at a minimum.

As the graph below shows, in the past three years jobs held by university graduates expanded 17 per cent, while the number of jobs held by people not completing high school fell 19 per cent.



Provincial and territorial governments, supported by the federal government, have created a strong education system in Canada. This country leads the OECD countries in the proportion of adults with some post-secondary education. However, while we can take pride in our learning systems, we have no cause for complacency:

- Almost 3 million Canadians have very limited literacy skills. Another 4 million have some difficulty with everyday reading tasks.
- Every year, most of the 250,000 young people who leave high school for the labour market, do so without further structured education or training to smooth the transition.
- Too many young people leave school prematurely and many of those who do drop out never acquire the basic skills and qualifications for a decent job.
- Many Canadians, either on social assistance or working for low wages, would like to upgrade their occupational skills, but cannot afford to do so.

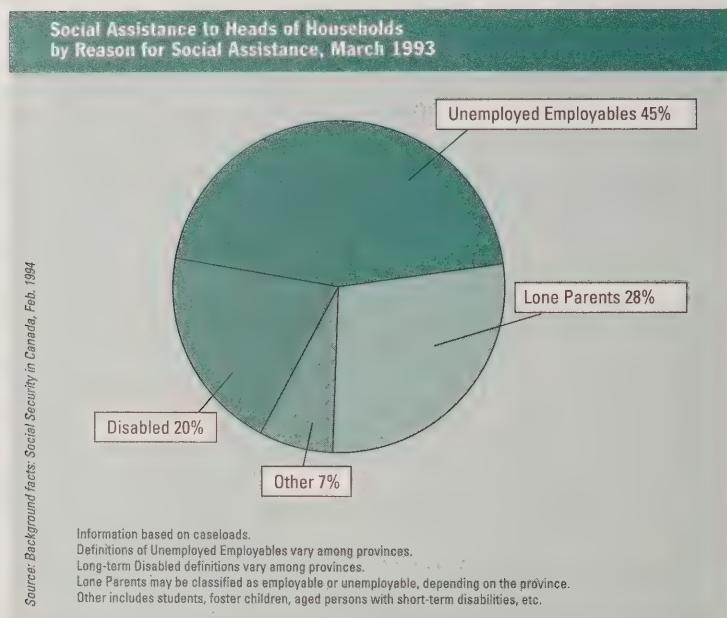
## The world of security

Many Canadian families lost economic ground during the 1980s and early 1990s. Overall, average disposable family incomes have not grown since the early 1980s.

In recent years, increasing numbers of Canadians who cannot find jobs have turned to social assistance. In March 1993, 3 million Canadians (nearly 40 per cent of whom were children) depended on social assistance. This com-

pares to 1.4 million recipients in the same month in 1981 — a doubling in just 12 years.

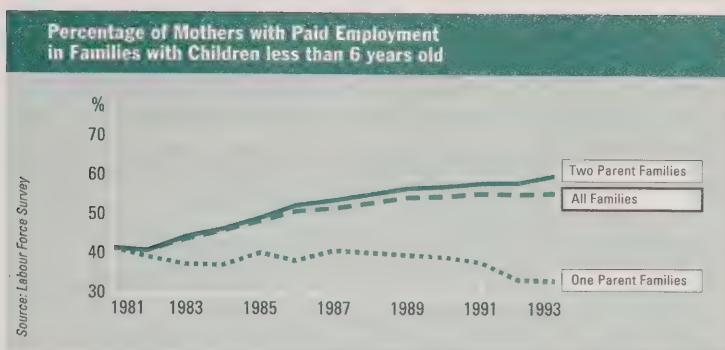
While definitions vary from province to province, provincial data indicate that 45 per cent of heads of households receiving social assistance were "employable" in March 1993. This group would be more employable if they had greater access to basic skills development and job training. Then as more jobs become available, they would be ready to take them. Another 28 per cent of households are headed by lone or single parents who may be able to find work if they receive a combination of training and employment supports such as child care. A further 20 per cent are persons with disabilities, some of whom would be in the labour force if they could access disability-related supports and services. The following chart shows the breakdown of social assistance households by reason for receiving assistance.



Lone-parent families, mostly headed by women, have increased in the past 15 years from 11 per cent to 16 per cent of all families with children under 18. Almost 60 per cent of these families must survive on low incomes. Single mothers, especially those with children under six years old, face a particularly difficult time in gaining employment.

The following chart shows that paid employment for this group has fallen since 1987.

Undoubtedly one key reason why there is such a close link between poor children and lone-parent families is inadequate, unreliable or unpaid child sup-



port payments. Many separated or divorced non-custodial parents are not living up to their obligation. This leaves many lone-parent families in a precarious financial position.

Too many children in Canada start out their lives in poverty. Indeed, last year more than 1.1 million children lived in households that received social assistance. Seventy per cent of these children lived in lone-parent households. Many children of the working poor also face deprivation. Although there are different measures of poverty, one common estimate is that as many as one in five Canadian children are growing up poor in a nation that boasts one of the highest standards of living in the world. Many organizations have decried the devastating impact of child poverty on human development. The Caledon Institute of Social Policy notes that:

*"Poor kids have higher than average rates of ill health and accidents. They tend to perform worse at school (many can't learn properly because they're hungry). They have higher than average school drop-out rates. This educational legacy translates into bleak job prospects and low incomes down the road. The cycle of poverty continues."*

## The need for a new model

While the various pieces of the social security system have evolved considerably over the years, the fundamental approach has remained fairly static — to furnish basic income support to people and families in need, supplemented by an array of government services. The tumultuous social and economic changes of the past decade and a half have left us with a system that is out of date and in need of reform.

First, the system is geared to help people where change was the exception, not the rule, so it does too little to help people adjust to change. As noted earlier, Unemployment Insurance is a classic case. Today, almost 40 per cent of regular UI claimants have used the program at least three times in the last five years. Many are on a treadmill. They need help getting off.

connections

"Trying to slow the pace of change ... would only make delayed adjustment more painful. All policies should therefore be harnessed to promote adjustment to change, while taking care to reinforce social cohesion ...."

*The OECD Jobs Study: Facts, Analysis, Strategies, 1994*

Long-term unemployment, and the growing number of people who repeatedly fall back on Unemployment Insurance, show that people aren't getting the help they need to help themselves. Too many young people leave school unprepared for the world of work. Too many people on social assistance or in low-wage jobs can't afford — or are not allowed by the system — to upgrade their skills. Too many people with careers derailed by change are not receiving the appropriate training.

The second way the system is out of touch concerns those most vulnerable in our society, especially children. It is well established that the first few years of life are critical to the development of human potential. Although social assistance programs recognize the needs of families in setting benefit levels, and the Child Tax Benefit targets children specifically, the result is often insufficient to meet the reasonable costs of child-rearing. Our failure to treat such assistance as an investment in the future generation's well-being sows seeds of future social costs. Our system also fails to enforce the payment of child support on which many lone-parent families must rely.

Thirdly, the system tends to capture those who come within its ambit. Adults who want to escape from dependence on social assistance find the rules stacked against them. Getting training is extremely difficult, with little financial support available. If they take a job, most of what they earn is deducted from their social assistance cheques, and they could lose other benefits such as free dental services. Similarly, our system tends too often to pigeon-hole persons with disabilities as unemployable. Gaining access to facilities and training that would permit partial or full participation in the labour force requires luck and unwavering persistence. It almost seems our present social security system is designed to keep people dependent on it, rather than investing in their integration into the regular world of work.

Fourthly, the system fails to focus on individuals and their real needs. One-size-fits-all programming, conceived a generation ago, is now too often aimed at the wrong targets. Over time, as governments have tried to plug the gaps, a program jungle has grown up. Too little coordination and potentially overlapping clienteles justifiably have fed widespread concerns about waste, abuse and unfairness. Some people get more assistance than they need while others do not get enough or, just as bad, expensive services that don't work.

Finally, services are treated as costs, not investments. The emphasis is squarely on remedial assistance, not prevention.

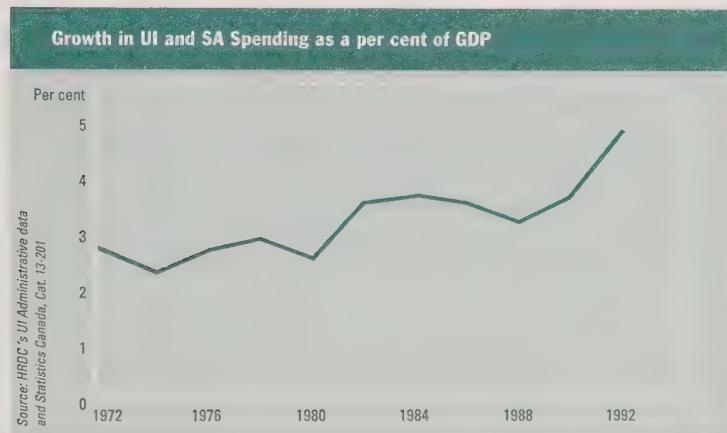
Canadians recognize that our existing social security system needs to be redesigned. The House of Commons Standing Committee on Human Resources Development concluded in its interim consultations report earlier this year:

*"Canadians said clearly that although our social programs have served us well in the past, fundamental change is now necessary. An historic opportunity is available to build a new social security system from the ground up .... Many Canadians have advanced the view that rather than modifying the status quo, this process should build a new foundation."*

## The fiscal context

Combined spending on Unemployment Insurance and social assistance has grown as a proportion of the Gross Domestic Product from 2.7 per cent in 1972 to 4.8 per cent in 1992, an increase of over 75 per cent.

Such increases are simply not sustainable. Reform of social security cannot be contemplated in isolation from the fiscal realities facing governments in Canada. Until the fiscal situation of governments improves, there will be no new money for new programs, including social programs. And existing expenditures must be brought under control and in some instances reduced.



The reform of social security must take place within the fiscal parameters required to meet the government's target of reducing the deficit to 3 per cent of GDP by 1996-97. The federal Budget of 1994 included measures which will reduce spending on Unemployment Insurance by at least \$2.4 billion in a full year, and foresaw significant additional reductions in Unemployment Insurance spending as a result of the social security review. Post-reform social security transfers to provinces under the Canada Assistance Plan (CAP) and the post-secondary education component of Established Programs Financing (EPF-PSE) can be no higher in 1996-97 and beyond than in 1993-94, when CAP transfers totalled \$7.74 billion and EPF-PSE totalled \$6.07 billion. If further measures are required to achieve the government's deficit target, they will be included in the 1995 Budget.

Our challenge therefore is to bring our social programs into line with current realities, including fiscal realities.

## The scope of reform

The ideas for comprehensive reform outlined in this Discussion Paper are grouped around three core elements of the social security system that are considered crucial to creating opportunity and promoting self-reliance in our society: *Working*, *Learning* and *Security*.

Under the *Working* heading, this Discussion Paper groups federal government employment and social security programs and employer-provided services and policies that deal directly with the individual's relationship with the world of work. This includes Unemployment Insurance, which can offer income support during temporary and unforeseen periods of job loss, facilitating the process of searching for another job and rejoining the work force.

A second set of programs, loosely grouped under the heading of Employment Development Services, includes measures aimed at getting unemployed individuals back into the work force. Job counselling, occupational training assistance, mobility grants, and low-wage income supplements are the sorts of programs and incentives that are presented for consideration. Of course, employment development services are not restricted to government programs. Increasingly, industry sector councils run by management and labour representatives, are working with governments and educational institutions to offer counselling and re-employment training.

With a majority of parents with young children both engaged in paid work outside the home, child care also becomes a crucial factor in employment. As well, a host of employer or union-provided services in the workplace, from day care facilities to parental leave arrangements, form an important part of the employment-social security link.

The next grouping falls under the *Learning* heading. Education is a provincial responsibility under the Constitution. Although education serves a wide range of social objectives, it is the links between learning and the world of work that are of primary interest in this Paper. The federal government's economic responsibilities, including its concern for individual opportunity, are at the core of its long-standing commitment to helping provinces and the private sector provide access to lifelong learning for all Canadians. Notwithstanding tough fiscal pressures on federal support to post-secondary education, a first-rate learning system must generate and renew the skills we need for success and fulfillment in the world of work.

The notion that learning is only for children and for young adults about to embark on a lifetime career is now obsolete. Increasingly, to keep abreast of changing job requirements, learning new skills and knowledge is being viewed as a lifelong preoccupation. Our post-secondary education and training institutions, as well as many less formal routes to learning, are providing growing numbers of adults with opportunities to adapt to the demands and opportunities of the labour market. The federal government has long supported these efforts, and is now considering how best to help preserve and broaden Canadians' access to higher learning.

The third component, **Security**, forms the traditional heart of the social safety net, encompassing the federal government's Canada Assistance Plan contribution to the provinces for social assistance and social services, as well as the federal Child Tax Benefit. These programs, if well designed, can have more positive economic impacts on people's lives, foster personal independence and act as a springboard to employment.

Policies that work together more effectively to alleviate child poverty and deprivation today can pay dividends tomorrow by reducing the next generation's ranks of unemployed.

## Guiding principles for reform

The options for change outlined in this Discussion Paper are intended to stimulate debate among Canadians. They are not cast in stone. Their primary purpose is to give shape and meaning to the philosophy and principles of a social security system reformed to meet modern needs. What follows are a set of complementary guiding principles which the government hopes will give definition and purpose to the reform debate.

### ■ Creating opportunity

Opportunity must be the watchword of our redesigned social security system. Our aspiration is to build a social security system that enables all Canadians, children and adults alike, to obtain a fair and equal opportunity to exploit their talents, lead fulfilling lives, and experience the dignity of work.

“Opportunity must be the watchword of our redesigned social security system. Our aspiration is to build a social security system that enables all Canadians, children and adults alike, to obtain a fair and equal opportunity to exploit their talents, lead fulfilling lives, and experience the dignity of work.”

### ■ Investing in people

The best way of making the most of a rapidly changing world is to ensure that people have the tools needed to adapt to change. Canada must invest first and foremost in its people.

The traditional approach to social security has centred on providing income support and basic services to those in need. This “safety net” approach is incomplete. Too often it shortchanges people by dealing with the symptoms of their income insecurity, not the causes.

### ■ Mutual responsibility

Providing basic support for those in need and those who cannot work is unquestioned. But for those with the potential to help themselves, improved government support must be targeted at those who demonstrate a willingness and commitment to self-help.

### ■ Preventing future problems

Our social safety system has been developed to cure a series of ills we loosely define as “insecurity”, much as our health system has, until recently, concen-

trated on curing people who become sick. But curing people is generally a lot more costly in the long run — both for society and the individual — than measures that might have prevented the problem in the first place.

That's why this Paper advocates a shift in spending towards initiatives that could prevent a share of tomorrow's social insecurity, such as assigning a greater emphasis to tackling child poverty.

### ■ Putting people's needs first

Putting people's needs first means creating a flexible, constantly evolving network of supports, delivered by governments, employers, labour unions and the voluntary sector to help Canadians work, learn, and prosper. Tomorrow's social security must address the particular needs of individuals, and not force people to meet the arbitrary requirements of narrowly-defined programs and services. Programs must serve people, not vice-versa.

### ■ Greater fairness

The 1994 Budget noted that the current social security system — in particular the rules governing federal support for social assistance under the Canada Assistance Plan — has led to disparities in such federal support in different parts of the country. Potential reforms set out in this Discussion Paper need to be assessed in terms of their ability to achieve greater fairness in federal support throughout Canada.

### ■ Affordability

Any reformed social security system must meet the test of affordability, both now and in the future. A social security system that is financially unsustainable is a dead end. Therefore, social security reform must in part entail making difficult choices about the best use of available funds.

## The federal-provincial partnership

Social security reform requires going beyond the content of policies and programs to find ways to modernize how they are managed and delivered. Canadians demand and deserve the best possible service, the elimination of waste and abuse in administration, and duplication among programs offered by different governments. In short, they want the best value for their tax dollars.

If there is one feature of Canadian politics that most people are tired of, it is the constant tug of war between federal and provincial governments over questions of jurisdiction. Altogether too much energy has gone into bickering, and not nearly enough into meeting people's needs.

This situation can and must change. The federal government is committed to:

## Strategic Initiatives

In the February 1994 Budget, the federal government announced that it would support innovative approaches to meet social security needs developed in partnership with the provinces and territories. The government will provide \$800 million for these initiatives.

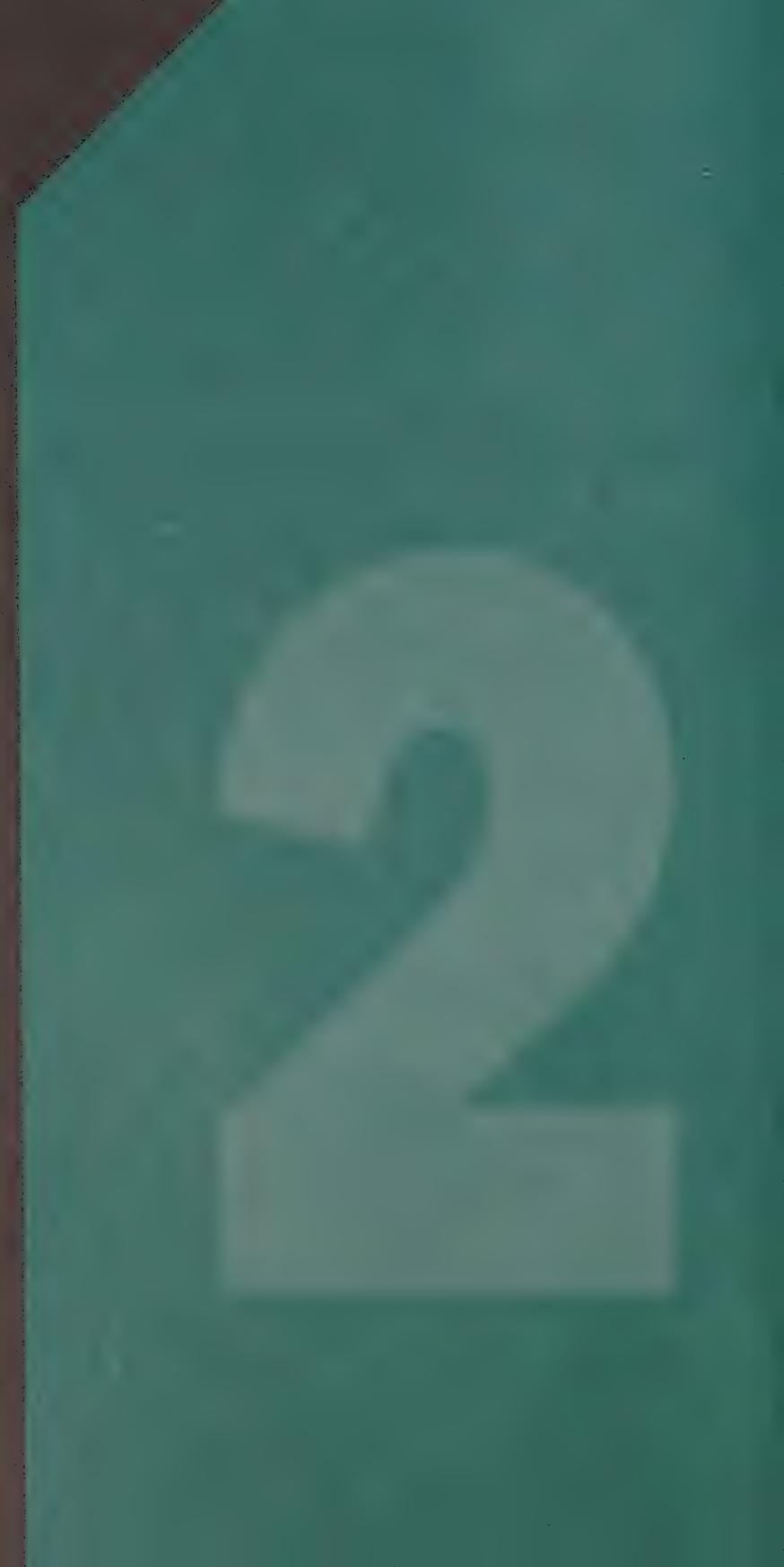
These Strategic Initiatives are a key part of Social Security Reform. They are designed to:

- test new options for reform in training, income security and social services and learning;
- explore ways to help people move from welfare to work; and
- find more cost-effective approaches to labour market programs.

- increased collaboration and cooperation with the provinces and territories in order to simplify access to services, and minimize duplication and waste; and
- clarification of roles and responsibilities, consistent with the Constitution, based on who is best able to accomplish what is required in the interests of individual Canadians.

The provinces and territories, local communities, and private groups have undertaken many innovations over recent years in searching for better ways to deal with long-standing social problems. Such experimentation must continue to flourish. The federal government is ready to contribute to such activities. Over the past months, a series of cost-shared Strategic Initiatives have been announced by the federal government in collaboration with most of the provinces.

# Working: Jobs in a new economy





"[We must] pursue active labour market policies that will help the unemployed to search more effectively for jobs and ensure that our social support systems create incentives to work...."

*G-7 Jobs Summit  
Communiqué, 1994*

## Introduction

The best form of social security comes from having a job. That's why the centre-piece of this reform must be helping people to prepare themselves for work in a changing world. How can we substantially improve Canada's investment in helping people get and keep jobs? The answer lies in part in better access to more personalized career counselling, more focused training, more opportunities for work experience, and in some cases, earnings supplementation for low-wage workers. Today, these services exist, but they are inadequate. They do not reach enough people; they are too fragmented; and they do not fit individual needs or local job markets well enough. The starting point for reform is to design the best possible system of services and supports — a springboard that will truly help the unemployed get back to work.

Canadians want to work, and place a high value on the dignity, independence and self-respect that work brings. The federal government is committed to building an economy and a future where more jobs are available. Part of that commitment is ensuring that we invest in people, in order to reduce the skills deficit that limits opportunities for growth, and adds to this country's fiscal deficit.

This Chapter also looks at how the Unemployment Insurance program must change to support the goals of independence and self-sufficiency. Reform of the UI program is an integral step towards helping people adapt to change. It can help us increase our investment in employment development services, and create jobs by lowering premium rates. The Chapter concludes by discussing the problems of parents juggling the demands of work and child-rearing.

### A. Employment development services

We use the term "employment development services" to describe a wide range of measures designed to help people having difficulty finding and keep-

ing a job. These include such things as personal counselling on career goals and opportunities and job search strategies, provision of labour market and job information, classroom and on-the-job training, work experience projects, and earnings supplementation that makes it easier for workers facing employment barriers to enter the labour force.

The role of the federal government in helping people improve their skills derives from its general responsibility to foster better national economic performance, a specific concern to minimize the extent and consequences of unemployment, and its interest in fostering labour mobility and equality of opportunity across Canada. The federal government currently spends \$1.4 billion annually from general government revenues on employment programs and services for persons seeking to enter or re-enter the labour force. The UI program provides \$1.9 billion, or 11 per cent of total UI benefits, on adjustment programs and services and extended income support for Unemployment Insurance claimants.

In the short term, employment development services are more expensive than simply providing people with income support. But unlike income support, these services are designed to help people become more employable. They represent an important investment if they successfully help people get off UI or social assistance, and back into paid work.

### **The need for reform**

Do employment development services in fact help people get jobs? Today the answer is yes – sometimes – when assistance is carefully tailored to an individual's needs, and linked to real job opportunities. However, the system now is too hit-or-miss. That's why the results have been inadequate. Too many people end up in programs that have little to do with their aptitudes or opportunities. Many get training for jobs that don't exist locally. Many are shunted from one program to another, when all they really need is basic counselling on how they can best fit into the job market.

There are many reasons why today's programs don't work as well as they should. There are too many mismatched programs, with inconsistent rules and too much red tape. Course offerings are driven too much by what is available, rather than by what is needed. In many cases success is measured by how many people pass through a program. The outcomes achieved – whether or not people actually get jobs – are frequently not assessed. Programs offered by different levels of government are often not coordinated. In short, the system must change.

### **Directions for reform**

There is an urgent need to rethink employment development programs so that they focus squarely on one simple objective: helping people find good jobs.

The key to such a system is **flexibility** — to meet the real needs of people, to adapt to the very different conditions in different communities.

People may need help for diverse reasons. Some may have work-related problems that are symptoms of deeply-rooted social problems — often arising in childhood, and then passed on through failures in school and early job experiences. Some may be highly skilled, but need information on how and where to market those skills. Some may live in communities with few job opportunities, and need to explore alternatives such as self-employment, or mobility.

But in each case, the fundamental need is the same: a job. An enhanced system of employment development services should:

- **create opportunities for employment**, helping people who are without work to find work;
- **emphasize prevention**, helping people to avoid unemployment by building the skills and work experience needed to adapt in a constantly changing environment;
- **address individual needs and local opportunities**, driven by what works best in a given situation, rather than by rules and regulations;
- **encourage mutual responsibility**, by engaging the client in deciding on an individual action plan, with appropriate follow-up;
- **facilitate adaptation**, so that recent immigrants who come to Canada with needed job skills and professional qualifications can more easily gain access to employment services, and succeed in the transition into the Canadian labour market;
- **ensure effectiveness**, by minimizing waste, and ensuring compatibility between federal and provincial programs, as well as placing a priority on finding out what works and what doesn't, and adjusting accordingly;
- **strengthen partnerships**, not only with the provincial and territorial governments, but also with communities, learning institutions, employers, unions and sectoral organizations, as well as individuals and families, in developing skills and job opportunities.

Experience here in Canada and in other countries has taught a number of lessons about what works and what doesn't work. For example, we know that training programs that involve employers directly tend to work better than those that are exclusively classroom-based. We know that subsidized work placement for the long-term unemployed can be effective, whereas simple short-term job creation has little impact. We know that self-employment and business development initiatives have a high benefit-cost ratio. We know that training programs that require the students to put in some of their own money work better than when students make no investment of their own. The federal and provincial governments have begun to recognize these lessons, and experiment with innovative, cooperative solutions.

## Strategic Initiatives

### Strengthening partnerships

Strategic Initiatives announced recently in collaboration with the provinces seek innovative ways to coordinate services and involve communities:

- in Manitoba, *“Taking Charge!”* will give up to 4,000 single parents on welfare the tools and training they need to get jobs, build careers and provide a better future for themselves and their children. Working out of a storefront, the program involves the community in delivering services tailored to the personal career plans of each participant. They will work with employers, job placement agencies, and other single parents who serve as mentors and role models to improve their skills, build their confidence and remove barriers to employment.
- in Ontario, **jobLink** will help welfare recipients get back to work by giving them the supports and services they need to prepare for and find jobs. jobLink Resource Centres will provide “visible doors” in communities and make existing training and job creation programs more accessible and effective for welfare recipients.

“What is needed is a renewed and strengthened set of employment development services capable of providing more highly structured and predictable assistance to the unemployed.”

It is essential to bring the partners together at the national, provincial and local levels to create people-centred, results-oriented employment development services. The federal government is prepared to see a larger provincial role in building such services. As an immediate step, the federal government has offered the provinces greater responsibility for the planning and delivery of many federal employment programs and services, and has also invited the provinces to take the lead in setting up a network of “single window” offices that would serve all Canadians, whether they were seeking help from federal or provincial programs.

### **Building employment development services that really work**

What is needed is a renewed and strengthened set of employment development services capable of providing more highly structured and predictable assistance to the unemployed. In the first instance, this ought to feature, as a matter of course, individual needs assessment and career counselling, as well as accurate labour market information, to help individuals make informed choices about the kinds of training and employment options available. The role of counselling would be to help each individual draw up a personal reemployment plan, including training courses as appropriate; that would suit the individual’s aptitudes and experience, as well as the labour market. In each case, the actual support package must be drawn from a wide array of options. These would range from basic skills upgrading, through institutional training and community employment, to support services including child care and employment supports for persons with disabilities.

We will have to face some tough choices. Not everyone can be retrained at public expense. So priorities will have to be set. For example, it may make little sense to push an older worker to take extensive retraining about which he or she may be ambivalent, while denying a training opportunity to an employable social assistance recipient. Then there will be issues about how much to invest in individual workers, according to what criteria, and how many times people can “come back for more”. Greater community involvement in decision-making will help in sorting out these issues.

Building a new model of employment development services is obviously an ambitious task. Central to the success of such services is a shift to greater coordination of the activities of all partners within a flexible, locally-managed, community-based structure. Such a cooperative approach is needed to get people into real jobs. We simply cannot afford to train people for yesterday’s jobs. That is why business, labour and community groups must play a larger role in defining needs and delivering employment development programs and services. Such comprehensive local delivery would also encourage ongoing assessment of the effectiveness of particular programs, and the flexibility to shift resources into more effective interventions.

## Tools

### 1. Enhanced needs assessment and counselling

In 1993 the Organization for Economic Cooperation and Development (OECD) reviewed employment programs in various countries. The review concluded that, to be successful, they must be tailored to individual needs. "Off-the-shelf" services and general approaches simply do not work. An approach that tailors employment development services to individual needs would put a greater emphasis on assessing those needs, and on individual counselling.

As a 1990 Canadian Labour Market and Productivity Centre study reported:

*"Effective counselling support services are vital to the success of labour market programs. Counselling is the best way to identify those most likely to benefit from labour market programs and those most at risk of experiencing long-term unemployment."*

Currently about 10 per cent of UI claimants receive employment and career counselling. If more individual assessment and counselling were provided "up front", counsellors could better ensure appropriate help. More individuals, then, in collaboration with their counsellors, could create plans to pinpoint the programs which would best suit their circumstances.

Such a tailored plan could draw from a menu of services available not only from the federal government, but from provincial governments, municipal agencies, and organizations in the community. These could include:

■ **A wide range of flexible options**, so that assistance could be adapted to individual and local needs. These services could include training, work experience, literacy and other basic skills training, mobility assistance, self-employment assistance, access to information on job vacancies and community employment development.

■ **A variety of income and other supports** to encourage, for example, the participation of people who have additional needs. These could include earnings supplements to help displaced workers start new careers with new employers; supports and services for persons with disabilities; child care allowances; support for older workers and long-term unemployed; and wage subsidies to encourage employers to provide work experience for people with limited skills.

■ **Up-to-date labour market and training information and feedback on what works** — to identify at the local level what kinds of programs are most effective for different types of participants.

■ **Special initiatives** to address the needs of communities facing severe economic decline, and especially disadvantaged groups in society.

Enhanced "front-end" services such as needs assessment and counselling are expensive. Reallocation from existing expenditures is the only way to pro-

vide them to more people. These resources could come from savings generated through reform of the Unemployment Insurance program, discussed in section B of this Chapter, and through savings achieved by “working smarter” and streamlining other parts of the employment development services system.

## **2. Labour market information**

In its 1994 report ***Putting the Pieces Together***, the Canadian Labour Force Development Board writes that:

*“Labour market information is the life-blood of a transition system. It should flow continuously in a permanent loop ... [It] is necessary for making informed career choices in the education system, making appropriate career decisions, determining the nature and extent of training programs, and providing effective career and employment counselling.”*

The report also suggests that new technologies can be used to build such a continuous information loop — the “electronic hiring hall”. Using this approach, both employers and employees could feed information about their respective requirements and skills into a computerized system, and get back a list of either potential jobs or applicants for immediate action. Such an “electronic hiring hall” could be accessed from a Canada Employment Centre, or a provincial or municipal office, or a home or business terminal that could be connected to a regularly updated network. Delivery, therefore, would be highly decentralized, less costly and more efficient.

## **3. Enhancing basic skills**

One fundamental obstacle to successful skills development faced by many Canadians is their lack of basic learning skills. As noted in Chapter 1, millions of adult Canadians are not functionally literate, or have weak numeracy skills, seriously hampering their ability to participate in the job market. These skills are not only required for most jobs; they are the foundation for development of more advanced skills. People lacking such skills are disadvantaged in today’s world and will be more so in the future, unless they get help. Increasingly, they find their skills inadequate for jobs which are becoming more and more information-intensive. In designing enhanced employment development services, Canadians will have to decide how basic skills training can best be improved, and what priority such training should receive.

The past ten years have seen great progress in recognizing and tackling literacy problems in Canada. Governments, together with many parts of the learning system, the private sector, and voluntary organizations, have created innovative approaches and new opportunities for people of all ages to acquire these vital skills. One of the most intensive efforts to combat illiteracy, for example, has been undertaken by the government of New Brunswick, which has set up a network of community-based literacy education for adults in church basements and community centres.

The federal government has contributed actively to literacy, particularly through the purchase of institutional training and the provision of income support to trainees. As well, the National Literacy Secretariat has worked with partners in this field to promote research and development, and public understanding on literacy issues, especially workforce literacy.

But more needs to be done, recognizing that basic skills are the prerequisite for employment success. One of the biggest challenges is to make appropriate training more accessible. If people can't get to the training, then new ways must be found to take training to the people. Frontier College, one of Canada's leading innovators in community-based training, is exploring a variety of approaches. These could involve, for example, the application of new learning technologies, and providing training in the workplace or on-site at public housing projects, youth shelters and other community centres.

#### ***4. Institutional training***

Training delivered by public educational institutions will remain an important part of the employability enhancement tool kit. At present, the federal government spends about \$450 million annually to purchase blocks of seats in institutional training programs. Clients are then referred to the available seats by local Canada Employment Centres.

Such training, however, may not always be as cost-effective as possible. Adult learners may not benefit most from formal classroom instruction, unless it is linked to practical on-the-job experience. In beefing up our employment development effort, it will be critical to ensure that the types of training available meet the needs of those seeking work. This will involve expanding the experiments with varied training formats — classroom training, on-the-job training, computer-based training, distance learning.

#### ***5. Workplace training***

Enhanced employment development services could give employers a greater role in training. In fact, some of the most effective training today takes place in the workplace — designed by employers to improve productivity and cost performance by combining work experience with skills development. In a growing number of cases employees and their unions are helping shape such training.

While there are payoffs for the employer from work-based training, these may be indirect or longer-term. Such training has important benefits for society because well-trained workers are more employable, and can adapt more easily if they are forced to change jobs. It may therefore be appropriate for governments to consider incentives for employers to undertake these activities. This would apply especially to small- and medium-sized businesses which often lack the resources to do much formal training on their own.

Commentators have suggested various ways to promote employer-led training, such as employer tax credits, levies for training, wage subsidies and di-

rect government assistance, paid educational leave, individual training accounts and work-sharing arrangements. These possibilities will need to be explored fully, bearing in mind that it makes good business sense for employers to invest in developing their employees.

International examples of apprenticeship systems also suggest ways to incorporate employer-based training into employment services. Germany for example, has created the widely acclaimed dual apprenticeship system, a combination of on-the-job training with classroom learning. The apprenticeships are regulated by business and industry to assure a system which is highly responsive to ever-changing labour market demands. We should explore how this and other international models could help us address Canadian skills problems.

There has been considerable progress in mobilizing private sector training and championing a training culture in Canada through sector councils. These councils represent employers and workers within a sector or industry. With initial start-up funding from the government, they identify current and future training needs within the sector, establish occupational or skills standards, and develop an industry-led training program.

One of these councils' goals has been to establish up-to-date, industry-wide, skills standards for the various occupations in the particular industry. This includes undertaking long-term human resource planning to identify formally the job requirements the industry expects to encounter in coming years. Such planning permits action to avoid bottlenecks by making sure colleges and universities are turning out enough graduates with the right skills. In some in-

## Electrical and Electronic Manufacturers' Association Sectoral Council

The Electrical and Electronic Manufacturers' Association Sectoral Council — representing both workers and employers in the industry — has shown that employer-based training not only boosts productivity, but creates jobs.

Unions and management set up a training fund, with contributions from participating firms and their employees, matched by a joint federal-provincial contribution. The fund is used to support training based on three key principles:

- decisions about the kind of training offered are made at the local plant level;
- the best place to train people is on the shop floor; and
- training decisions are made by consensus — recognizing that effective training must benefit both workers and employers.

Productivity gains sparked by the training fund have already created new jobs, as companies become more competitive in the marketplace. The

industry's training fund provides a model for one approach to building a stronger training culture in Canada — by strengthening the links between training and the competitive needs of an industry, with all partners involved in the decision-making process.

With a relatively small investment from the federal government, thousands of employees have re-invented their jobs — avoiding unemployment, and ensuring that one of the key growth sectors of the new economy can remain strong and vibrant.

stances – the Canadian automobile repair sector, for example – this has meant the sector councils working closely with the educational sector, first to develop new training curricula, then to help train the college teachers to meet the new standards, and finally to launch co-operative training programs for students. It is a natural step for many of these councils to move more aggressively into addressing the issue of smoothing school-to-work transitions. Each of these training programs is intended to be financed by the industry once it is up and running. Sector councils are already active in the steel, electronic, tourism, horticulture, auto repair and several other industries.

These councils have shown how partnerships in developing training programs can benefit industries and workers alike. The sector council approach is particularly attractive, as a small government investment in start up can lever a considerable training commitment by the industry. For example, the training fund of the Sectoral Skills Council of the Electrical and Electronic Industry in Ontario is funded equally by four partners: the federal and provincial governments, the employers and the workers. A new employment development services system could make this “leverage” principle a central part of its approach to training.

## 6. Innovative approaches to employment

In some cases, direct employment measures — for example, earnings supplementation — may prove the most effective way to help integrate and reintegrate individuals into the workforce. In this approach, the earnings supplement would replace whatever insurance or social assistance benefits the worker would otherwise receive. The key is to ensure that direct employment initiatives are carefully targeted to clients who are most likely to benefit.

According to the 1994 OECD Jobs Study:

*“Job creation measures are often an important component of active labour policies. But their impact has often been disappointing . . . Targeting job creation to particular groups can produce better outcomes for programme participants and for society as a whole. In general, young people and the long-term unemployed are the best targets.”*

Well-targeted direct employment measures could take a number of forms. For example, many people who find themselves out of work have the skills, ideas and entrepreneurial drive to create their own employment. They may want to use their unemployment benefits to help start a new business. In some cases — in communities where few alternatives for employment exist — self-employment assistance may be the optimal choice for the individual, and an economic stimulus for the community itself.

Another option would be to provide wages for unemployed workers to perform useful work in their communities which would otherwise be left undone. The recently-announced Atlantic Groundfish Strategy (TAGS) has developed a model for what can be done in areas where there are few alter-

## Creating jobs through entrepreneurship

In Rimouski, Québec, an innovative training program helps women without income who have a business creation project to start their own business. Through a combination of general and individualized training, participants are able to develop their entrepreneurial talents and create their own job opportunity. To improve access to the program, funding has been set aside for child care.

This employment initiative is a good example of collaboration between community partners including the Canada Employment Centre in Rimouski, Ficelles and the CEGEP de Rimouski.

“Rigorous assessment of results should be the basis for developing enhanced employment development services. The emphasis must shift from following inflexible rules and procedures towards getting people the training and other help they need to get jobs.”

nate employment opportunities and individuals have limited mobility. In this initiative, employment is combined with training to help individuals contribute to local community development, while improving their skills through training and work experience. An underlying principle is mutual responsibility: individuals should participate in these programs in return for receiving income support.

The same general approach could be applied elsewhere. The voluntary sector and the environmental field are two growing areas where people could gain productive work experience, likely in conjunction with other training opportunities. More ingenuity is needed in seeking out such possibilities.

As another example, Australia has recently adopted an intriguing approach to wage subsidies. The value of the subsidy increases according to the length of time the individual is unemployed, in order to encourage employers to take on the long-term unemployed. Then the subsidy decreases over time after he or she is hired, as the worker’s value to the employer can be expected to increase. The subsidy is eliminated after six months of employment, but employers get an extra bonus if they retain workers for a year.

Such initiatives hold considerable promise, since they appear to avoid the pitfalls of many short-term job creation schemes that have proved unsuccessful in the past. The federal government will test the effectiveness of earnings supplementation as a re-employment incentive, starting this autumn in projects involving up to 50,000 UI claimants across Canada.

## Management and delivery

### **1. Managing by results**

Rigorous assessment of results should be the basis for developing enhanced employment development services. The emphasis must shift from following inflexible rules and procedures towards getting people the training and other help they need to get jobs.

Existing programs ensure accountability by setting up rules and controls to make sure that these rules are followed. There are rules to determine the amount of support to which an individual is entitled, the kinds of services that can be provided to different individuals, the standards that service providers must adhere to, and so on. This kind of accountability still makes sense. But it is not enough. The emphasis is too bureaucratic to allow for decentralized decision-making, working with partners and doing what works best.

A new approach to accountability would place more importance on results. A clear demonstration of the results achieved from an investment in people is the best means for ensuring that tax dollars have been spent wisely. With improved technology and a new mindset such an approach is increasingly feasible. If measurement focuses more on results, then the whole incentive structure for managing programs and services shifts towards getting

good results. There is less need for bureaucratic controls on who delivers the service, or the content of the service itself.

## ***2. Focusing on the community***

The range of options currently provided by government programs and services at the local level is not as flexible as it should be in addressing local needs and opportunities. Unemployed workers in Corner Brook, Newfoundland are not likely to have the same needs as their counterparts in Montreal, Medicine Hat, or Kamloops. A flexible approach to employment development makes as much sense for communities as it does for individuals. It may be more effective for governments to set broad goals, and let local communities determine how best to achieve those goals.

Such an approach would, of course, require ensuring that those who make decisions at the local level are accountable for achieving results in a cost-effective manner. This challenge of designing local level accountability, however, should not stand in the way of decentralizing real decision-making power. People who are out of work and need help want the right mix of services at the right time. The best capability for making decisions about that mix often lies with those who are most directly affected — the businesses, workers and others involved in the local labour market. Local leaders are also likely to have the best understanding of the relevance of local community college courses, and the greatest ability to persuade the colleges to stay in touch with changing local needs. Communities should thus have more ownership of the solutions to the problems they face. This may in fact be the best way to foster innovation and perseverance in tackling problems and developing lasting solutions. To achieve real jobs for people, non-governmental groups must become key players in decisions about employment development, because the private sector is where most of the jobs are.

Enhanced employment development services could make community-focused projects that take programs directly to the people the rule rather than the exception. For example, counselling and mentoring could be contracted to local organizations who know the labour market, understand the skills that may be required, and are familiar with the local services available.

## ***3. Towards a new federal-provincial partnership***

Renewed employment development services should be designed to improve service, eliminate any duplication and waste, and improve efficiency. Achieving these goals will depend on close cooperation between the federal and provincial governments. The common challenge is to deliver what works best in meeting people's needs. The federal government has an open mind on the issue of who is best suited to deliver such services, whether the federal government, the provincial and territorial governments, local communities, the private sector, or some combination of these options. The

federal government expects consideration of this issue to be an important theme in public consultations on social security reform. The conclusions may vary with the particular needs, interests and capacities of the various provinces.

In the meantime, the federal government has invited each province and territory to enter into a new three-year Labour Force Development Agreement. The purpose would be to move toward a clearer division of responsibility, while improving service to the public. Interested provinces and territories could assume responsibility for:

- strategic planning related to various federal employment development services, including institutional and workplace training, as well as project-based training;
- managing the purchase of institutional training;
- planning and implementing a network of “single window” offices, that would assemble under one roof programs and services provided by both levels of government, including unemployment insurance, training, welfare and other labour market programs; and
- managing a variety of other federal programs, such as cooperative education and Canada Employment Centres for Students. The list of programs could vary, depending on the interests of each province or territory.

The federal government looks forward to working with the provinces to harmonize services at the local level. This will simplify the system for individuals and remove waste. People will find it easier to benefit from programs and services offered by both governments. The guiding principle should be that local managers and their non-governmental partners decide on cost-effective solutions that really work for the people in their community.

As part of establishing a wide consensus on the best approach to employment development services, recognizing that this may vary across the country in different types of communities, it will be important to determine how best to deliver these services. The federal government is prepared to consider an expanded role for provinces and the private sector in managing and delivering federal employment development services, where this makes sense in the interest of individual Canadians.

### **Improved access to employment development services**

The federal government intends to discuss with provinces whether they would be interested in making enhanced employment programs more available to social assistance recipients who need them.

#### **a. Social assistance recipients and others outside the labour force**

At present, both the federal and provincial governments invest in skills development programs for social assistance recipients. The federal government spends

## **Strategic Initiatives**

### **Finding new ways to help people**

Strategic Initiatives developed in partnership with provinces will test new ways to help people get and keep jobs. For example:

- in Prince Edward Island, **Ready to Learn** will help young UI claimants and social assistance recipients aged 18 to 26 avoid long-term dependency on the social safety net. Peer tutors will provide literacy, lifeskills, academic upgrading and skills training, under the guidance of a professional counsellor.
- in New Brunswick, **NB Job Corps** is an innovative employment project for older, unemployed workers. It gives them meaningful work **and** the opportunity to contribute to their communities. About 1,000 older New Brunswickers will benefit from a steady income of up to \$12,000 a year, to work in areas such as silviculture, improving beaches, developing nature trails and library automation.

about \$1.4 billion on programs and services targeted to new entrants and re-entrants to the labour force, the long-term unemployed, and employed persons who need skills upgrading. Some of this investment supports social assistance recipients under federal-provincial agreements. The federal government looks forward to discussions with the provinces on cooperative approaches to developing “single window” employment development services that could be accessible to those who need help beyond simple income support.

Many successful initiatives now underway show that timely opportunities for social assistance recipients can greatly improve their opportunities for finding stable employment. For example, through the Self-Sufficiency Project in New Brunswick and British Columbia, time-limited earnings supplements are offered to long-term social assistance recipients to help them establish themselves in full-time jobs.

In New Brunswick there is a joint federal-provincial project called “N.B. Works”. It helps social assistance recipients to become more employable by addressing individual needs, with educational upgrading, skills training, employment experience, counselling and supports. The recent Strategic Initiatives agreements by the federal government to support the jobLink program in Ontario and a project for lone parents in Manitoba provide further examples of cooperation.

#### ***b. Access for persons with disabilities***

Employment development services can be made more available to persons with disabilities. These services can also deal better with the particular barriers they face. Discussions with the provinces should examine ways to accomplish this. Efforts might focus on creating partnerships among employers, the disabled community, and the provinces to remove barriers and to provide accommodations such as accessible workplaces, flexible working conditions, appropriate training and proactive disability management policies.

In addition, discussions between the provinces and the federal government could look at updating the approach to vocational rehabilitation. Some employers find that workplace-based reintegration programs that help employees who become disabled return to work can save financial and human resources.

The Vocational Rehabilitation of Disabled Persons Act (VRDP) is a federal instrument for providing funds to the provinces to integrate persons with disabilities into training and employment programs. The current Act, implemented in 1961, is outdated. Following on earlier federal-provincial efforts which resulted in several improvements, a further process of renewal should be considered. VRDP could be linked directly to employment development services as a bridge to mainstream training and employment opportunities.

However desirable these various possibilities for building employment development services that really work, change will depend on finding funds for reallocation primarily from reforms to the Unemployment Insurance program.

## B. From Unemployment to Employment Insurance

Unemployment Insurance was introduced in 1942 to provide temporary financial assistance for workers between jobs, and to facilitate job searches. It originally covered a limited number of workers — less than half of the work force. Today the UI program covers almost the entire full-time labour force, and about 75 per cent of part-time workers. Designed as insurance against the risk of temporary unemployment in a few industries, it must now operate in an economy where the risk of structural unemployment, including recurring unemployment and long-term unemployment, is growing in almost all sectors of the economy.

Reform of the Unemployment Insurance (UI) program is central to the goal of encouraging employment. A smaller, better-targeted UI program would permit funds to be reallocated to reducing employer and employee premium rates, and to strengthening our investment in employment development services. Lower payroll taxes encourage employers to add jobs because the cost of hiring people is reduced. Better employment development services help workers adapt to the changing labour market. Important issues for consideration in debating UI reform will include how best to adjust the program, and how best to allocate to premium relief and employment development services the resulting reduction in program costs.

### The need for reform

There have been many studies of the UI program over the past decade. They concluded that fundamental reform is needed.

■ **The UI program is out of date.** It works well for most UI claimants, who only require temporary income support while looking for a job. But it does not work well for the growing number of Canadians who need help adjusting to changes in the labour market, at a time when adjustment is essential.

■ **Often, the program discourages adjustment.** For example, UI does not encourage unskilled workers in seasonal industries to improve their skills during periods of unemployment. Short periods of work, alternating with periods of UI benefits, appears to be the only choice for them, and thus becomes a way of life.

■ **The program rules are open to abuse.** The UI program allows some employers and industries to organize their work schedules around the weeks required to qualify for UI. A recent study by Statistics Canada reports that some businesses have structured their basic hiring and compensation practices around the UI program — for example, planning layoffs to coincide with UI qualification periods, and recalls with the end of UI benefits.

■ **High employer and employee premiums discourage job creation.** Payroll taxes are generally a drag on employment. As well, premium

rates tend to increase during the latter parts of a recession, in order to even out deficits and surpluses in the UI account over a reasonable period of time. During a prolonged recession, this tax on jobs is increasing precisely at the time when jobs are most scarce and businesses are least able to bear the tax.

**■ Some people are left out.** Changes in the labour market have increased the number of working Canadians who are not covered by insurance under the existing UI rules. This particularly affects women and youth, who tend to predominate in nonstandard work.

**■ Canada needs a financially sustainable UI program, and a program that recognizes individual responsibility to work towards self-sufficiency.** While the federal government remains committed to providing income support to those who truly need it, Canadians want to ensure that limited resources are used to achieve the best possible results.

People using the UI program are not to blame for these problems. It is often the system which is at fault. Rules which encourage individuals and their employers to organize their work around the UI system every year need to be changed if the system is to be fair. At the same time, Canadians who find themselves in continuously unstable work situations need practical help, and in too many cases the current system does not provide it. The fundamental challenge for reform is to design a program that does a better job investing in people, and helping them get steady employment.

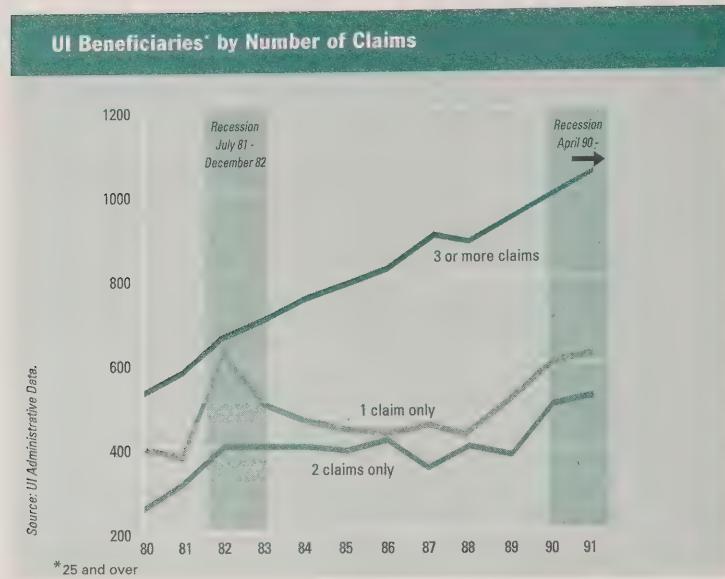
“While the federal government remains committed to providing income support to those who truly need it, Canadians want to ensure that limited resources are used to achieve the best possible results.”

## Approaches to reform

While there are many different options for reform, this paper concentrates on two basic approaches to changing UI. The first approach involves the design of a new *employment insurance* program focused on addressing the skills and employment problems of people who have frequent recourse to UI. The second approach is less targeted, aiming to reduce reliance on UI more generally. The reform strategy selected may draw elements from both approaches. Since the first approach is new and more comprehensive, it is described in greater detail.

### ***Approach 1: Design a new Employment Insurance program***

This approach involves fundamental changes to the UI program. It would more closely integrate UI with employment development services. This approach recognizes that for some people, employment problems are deep-seated, and temporary income support is often not enough to help them get back to work. The frequency of claims made over a given period may be the clearest way to identify those for whom the system is not working. For example, in today's labour market it may be normal for some people to become unemployed once or twice over a business cycle. Those who become unemployed three or more times in the same period, however, show quite different unemployment patterns. Unemployment in this group is structural; it continues to increase regardless of the variations of the business cycle, as the following graph shows:



Under the approach outlined here, *occasional claimants* — people who experience temporary, infrequent unemployment — would continue to receive earnings replacement and employment services as necessary, while they look for work. *Frequent claimants* — people who experience recurring unemployment and reliance on UI — would receive lower benefits, combined with more active assistance in finding a job. Income support could be conditional on their willingness to participate in programs that make them more employable.

Of course, it should be recognized that frequent claimants of UI face many different kinds of circumstances. For example, they include:

- highly-skilled, well-paid workers whose skills may be in demand only during certain parts of the year or the business cycle — such as those in the skilled construction trades;
- workers in occupations in demand for a single season, such as those in certain resource-based industries;
- workers in communities with especially high unemployment rates, where jobs of any kind are scarce;
- workers who lack basic skills, or more specialized skills in demand by local employers; and
- workers for employers who intentionally make decisions about hiring and layoffs around the availability and duration of UI benefits, as well as workers who make similar calculations about when they will work.

A new *employment insurance* system would need to take into account the variety of challenges faced by frequent claimants, and the potential impact of re-

form on different industries and regions in Canada. The government is discussing the potential impact of reform with the construction and other industries, and would consult closely with all industries that might be affected. It should be possible to work out with those in seasonal industries such as tourism, innovative approaches that ensure an income base, yet provide more opportunity for work and training in the off-season. Arrangements would also need to take into account the unique characteristics of particular industries, such as the fisheries.

In the framework outlined below for discussion:

- occasional claimants would have access to *Basic Insurance* benefits, similar to the UI benefits now in place;
- frequent claimants would receive *Adjustment Insurance* benefits, which could be paid at a lower rate than Basic Insurance, or be subject to an income test, or have a different duration;
- depending on their labour market needs and the resources available, both frequent and occasional claimants could have access to an individualized package of employment development services designed to enhance their prospects for employment.

The capacity to provide better employment development services as part of UI reform would depend on whether additional funds are invested in these services. This in turn depends on the option for UI reform chosen, and how the resources this reform frees up would be divided between these services, and lowering UI premiums.

#### *Basic insurance*

Basic insurance would be available to occasional claimants of the insurance program. The eligibility requirements, benefit levels, and duration of benefits would be modelled on the present UI program, although changes could be considered in each of these areas.

It would also be important to maintain the assistance this group of unemployed receives today, to help them find and keep a new job. In addition, basic insurance would include the sickness, parental, maternity and adoption benefits available in the current UI program.

Basic insurance would help individuals to overcome structural barriers to employment, but would not address the fundamental structural problems experienced by particular regions or industries. Specific action plans outside the UI program may be needed to address particularly difficult adjustment situations, for example, those faced by workers in industries undergoing massive adjustments such as the East Coast groundfish industry, and older workers facing labour market adjustment problems.

#### *Adjustment insurance*

Adjustment insurance would be available to frequent claimants. Careful consideration would need to be given to defining "frequency" for this purpose. As

discussed above, three or more claims in a five-year period seem to indicate a need for adjustment assistance. Different definitions would affect people differently, however. For example, a definition of frequency as three claims in five years would encompass about 38 per cent of existing UI claimants, while four claims in five years would cover about 24 per cent of claimants. Three claims in three years would affect about 27 per cent of claimants. The benefits which are paid to these groupings under the existing UI rules are in the order of \$6 billion, \$3.9 billion, and \$4.3 billion respectively.

A new Employment Insurance program would need to take account of the regional differences in the Canadian workforce. Decisions would be needed about how any UI funds freed up would be reinvested regionally — for example, to what extent regional investments would be proportional to the impact of UI reform.

A new system could be structured whereby, after an initial number of claims of basic insurance, frequent claimants would no longer be eligible for basic insurance but would receive adjustment benefits, and expanded access to a broader range of employment development programs. The kinds of adjustment assistance available to claimants would have to allow for different needs and circumstances, and provide programs and services that work for the individual. The frequency rule would start to affect people gradually, as their claims history identifies them as frequent claimants. The employment development services they require could thus be built up over time.

In designing an adjustment insurance program such as this, there are many choices to consider. These include:

■ **The duration of benefits:** Adjustment benefits could have the same duration as current UI benefits, which range from 17 to 50 weeks. Or they could be shortened. It may make sense, however, to allow longer periods in some cases to meet the needs of individual claimants. For example, if a claimant's ability to find stable employment would improve with a longer training and work experience program, benefits could be provided to make it possible to complete that course, as is now the case with UI Developmental Uses programs.

■ **The level of benefits:** The right level of benefits would depend on several factors. For example, for frequent claimants, UI has taken on more the character of an income supplement than an insurance scheme. As such, need may more appropriately play a larger role in determining the level of support. Since frequent claimants could expect a larger investment in employment development, lower income support may be sensible. Overall, benefit levels for frequent claimants would also depend on how much money Canadians want to put into income support and how much into employment services.

■ **Income testing:** As a means to target resources where they are most needed, adjustment insurance benefits could also be income-tested, based on an as-

essment of a claimant's individual or family income. For example, in 1992, about 3 per cent of all UI claimants had incomes of \$50,000 or more in the year they became unemployed. About 40 per cent were in families with incomes of \$50,000 or more. Income testing for frequent claimants could prevent those individuals who have a very good income from using the income support system simply because it is there, rather than because it is needed. Such testing would not necessarily affect access to employment development services. In a time of limited resources, Canadians need to consider carefully whether income-tested benefits would make sense.

■ **Participation in employment development programs:** Many people claiming adjustment benefits would need access to employment programs such as training, counselling, or job finding assistance. Canadians may wish to debate whether access to and the level of adjustment insurance benefits should be conditional on a willingness to participate in such adjustment programs or other useful community service, and how such an obligation should best be accommodated within the resources available for employment development services.

Decisions on each of these issues must take into account the overriding goal of reforming the Unemployment Insurance program, and the potential impact of any decisions on provincial social assistance programs. The goal is to structure the program so that it is fair to all and provides the right opportunities to help people end their insurance claims, and gain secure employment.

#### ***Approach 2: Adjust the existing UI program***

The second approach to UI reform would not distinguish between occasional and frequent claimants, but could be combined with such an approach. It would retain the shape of the present program more or less intact, but it would involve either, or both of, the following:

- increasing the number of weeks of work required to qualify for UI; or
- reducing the amount of benefits available, by shortening the duration and/or lowering the level of benefits.

Conventional adjustments such as these have been the foundation for many changes to UI in the past, including the changes announced in the 1994 federal Budget.

##### *Increasing entrance requirements*

Benefits would be better linked to the length of an individual's employment, and insurance would relate to a loss of substantial employment income. Some analysts believe that this approach would also encourage employment, because a short work history before making a UI claim has proven to be likely to lead to recurring claims in the future.

One option under this approach would be simply to increase entrance requirements. For example, the current 12-20 weeks requirement could be

raised to 14-20 weeks, or any other desired range. Entrance requirements could also be set at the same level in all parts of the country, instead of at levels which vary with the local unemployment rate, as is now the case. If the requirement were raised to 14-20 weeks, approximately 42,000 claimants would be affected, resulting in reduced UI expenditures in the order of \$350 million.

Alternatively, Canada could adopt an approach used here prior to 1971, and still in use in some other countries: basing eligibility on a worker's employment history over two years, rather than one year. For example, the 12-week minimum work requirement currently used is equivalent to a requirement for 24 weeks of work over two years. The entrance requirement could be increased to 26 weeks over a two-year period, or some other level.

Depending on implementation details, for example, a 26 week requirement could affect about 75,000 claimants, reducing UI expenditures by about \$400 million. This approach could give an individual more time, and therefore greater flexibility and opportunity, to find the extra weeks of work needed to meet higher entrance requirements. This in turn might promote greater labour force attachment with less dislocation than an increase in entrance requirements alone.

Such entrance-based approaches have merit. However, they have a limited capacity to shift the focus of the UI program towards promoting employment, because they do not help identify those who need the most help adjusting to change. Higher entrance requirements alone may disqualify people who most need assistance to improve their labour market attachment. In addition, people who have few opportunities to obtain longer periods of work, might face undue hardship.

This could also have difficult economic repercussions for regions with weak labour markets, particularly where only short-term seasonal work is readily available. Similar difficulties could arise with particular groups such as women, members of visible minorities, persons with disabilities or Aboriginal people. In such cases it will be essential for program changes to address the underlying problems that often lead to dependency on UI.

#### *Reducing benefit levels or duration*

At present, UI benefits are based on a dual rate scheme. Most claimants are eligible for an earnings replacement rate of 55 per cent, while those with low earnings and with dependents are eligible for a 60 per cent rate. Benefit durations range from 17 to 50 weeks, depending on the number of weeks worked and the local unemployment rate. Several changes have been made to benefit durations and levels in recent years.

Further reductions in the benefit levels are possible. For example, reducing the current earnings replacement rate by 5 percentage points (to 50 per cent and 55 per cent), would affect all claimants, resulting in reduced UI expenditures of about \$1.5 billion. One variant of this approach would be to in-

introduce a graduated benefit rate which decreases the benefit available with each subsequent claim.

The duration of benefits is currently linked to conditions in local labour markets. In regions with higher unemployment, claimants can receive benefits for a longer time. This aspect of the program could be reduced, or eliminated, on the grounds that it may help in the short term but discourages longer-term adjustment. In addition, the maximum duration of 50 weeks could be shortened. However, any changes would need to ensure that the benefit period provides Canadians with enough time for an effective job search. Reduced benefit durations could have significant implications for those in highly seasonal employment. The design of the UI program must not ignore the underlying structure of the Canadian economy, and changes should support economic and labour market adjustment where it is feasible and required.

In summary, while adjusting the existing UI program could result in an increase in resources devoted to employment development services, across-the-board changes to UI eligibility criteria *on their own* would do little to identify or address the labour market difficulties of those affected. People who would lose their benefits would not necessarily be directed to assistance through employment development services.

### **Insurance coverage for nonstandard work**

Whichever reforms are made, the UI program will need to consider the needs of workers in “nonstandard” employment, who have increased significantly over the last decade. This includes part-time, temporary, self-employed or multiple job holders. Most of these workers are women. In 1993, more than 60 per cent of all jobs created were part-time. Many of these nonstandard workers are not fully covered by unemployment insurance for all the hours worked, and some are excluded from coverage entirely. Some firms adopt such working arrangements specifically to avoid paying insurance premiums.

In addition, the current program does not cover self-employed workers at all, other than those in the fishing industry. There is a reason for this exclusion. It is difficult to tell when there is no work for self-employed individuals, as opposed to when they voluntarily stop working. Because of the potential for abuse, very few unemployment insurance programs around the world cover self-employed workers. Nevertheless, some jurisdictions such as Denmark and California have adopted programs in this area which deserve further study.

Despite the challenges in providing coverage for self-employment, part-time work and multiple jobs, these types of nonstandard work are growing in significance. The issue of providing improved insurance coverage needs to be reexamined. Practical solutions might be found by exploring and testing different options.

## C. Financing UI and employment development services

The UI program is funded entirely through employer and worker premiums. The total of premiums collected in 1993 was \$18.5 billion. For 1994, employees pay \$3.07 each week per \$100 of earnings, to a maximum insured weekly pay of \$780; employers pay 1.4 times the employee share, or \$4.30. A portion of the UI Account is used to pay for some employment development services for UI claimants (in 1994, the amount is \$1.9 billion), through the UI Developmental Uses Fund. Employment services for people who are not on UI are paid from the federal government's Consolidated Revenue Fund. For 1993-94, this latter amount was about \$1.4 billion.

Both employers and workers have expressed serious concerns about the way the Unemployment Insurance program and employment development services are funded. The process of reform must include a fundamental debate about this issue. The federal government has asked the joint labour-management Canadian Labour Market and Productivity Centre for advice on UI reform, including how the issue of UI financing can be addressed most effectively by the labour market partners.

A number of reforms are possible with respect to financing both UI and employment services. This section discusses some options for adjusting the way UI premiums are calculated, and then looks at alternative arrangements for funding employment development services.

### Options for adjusting how UI premiums are calculated

Unemployment insurance premiums are a form of payroll tax. Currently, they represent 42 per cent of federal and provincial payroll taxes and are the largest source of federal revenue next to personal income taxes.

It is widely agreed that, at least in the short run, payroll taxes discourage job creation, so there is merit to any reform that would lower premiums. At the same time, both employees and employers benefit from the income support and employment services which flow from these taxes. The issue is finding the right balance between the burden represented by premiums, and the benefits they entail.

There are a number of options that might help to improve this balance:

#### 1. *Adjusting premiums during recessions*

Premiums should be set to ensure that they are not at their highest when a recession is deepest, making it even more difficult for employers to hire. Unemployment Insurance is intended, in part, to soften the impact of recessions. Benefit payments do this by sustaining much of the purchasing power of unemployed workers. The stabilizing impact of UI payments has varied over the last 15 years, reflecting changes in the size of the UI program relative to the economy.

Recent estimates show that during a recession, UI reduces the decline in GDP by 10-12 per cent and reduces job losses by 10-14 per cent. However,

during a prolonged recession, the UI premium rate often rises to stabilize the UI Account, which partly offsets the anti-recessionary effects of UI benefit payments. The premium setting formula should be examined to find ways of avoiding such untimely rate increases. One approach which merits consideration would be to allow the UI Account to build up a substantial surplus during periods of economic growth. This surplus would provide a cushion in the next economic downturn against the need to raise premium rates, so that premiums can be maintained at a lower, relatively steady rate.

### ***2. Adjusting the earnings subject to UI premiums***

Consideration could be given to requiring employers to pay premiums on their total payroll; that is, the upper and lower limits on earnings subject to employer premiums could be removed. With a broader base, the premium rate for employers would fall. This would eliminate the present incentive to create part-time jobs under 15 hours per week to avoid UI premiums under the existing rules. It would also lessen the incentive for firms to pay overtime rather than create new jobs. The employee premium base would be the same as now.

A possible drawback to this option would be that for some employers, a larger premium base might lead to higher total premiums, despite a reduction in the premium rate, with possible negative consequences for job creation. Consideration could also be given to adjusting the balance between the shares paid by employers and employees. As noted earlier, employers currently pay 1.4 times the employee premiums.

### ***3. Experience rating***

Some people suggest introducing a “user pay” feature into UI premiums. This means that the premium rate an individual or employer pays would depend on how often they have used the program in the past. This would make UI premiums more consistent with private insurance programs, where a higher number of claims results in higher premiums. It would also address concerns that some industries, where use of the program is relatively low, are being forced to cross-subsidize other industries.

This approach could be implemented in the UI program as it is in provincial workers’ compensation programs, where it is called “experience rating.” Experience rating concepts could be implemented at either an industry or an employer level. Higher premium rates for frequent-claimant employers would more accurately reflect the costs of operating seasonally or cyclically sensitive industries, thus providing a better basis for investment decisions in those sectors.

However, for many industries and firms, especially smaller firms in seasonal industries, full experience rating might make it difficult to stay in business. An alternative might be to use partial experience rating, where a single industry covers only a part of the higher costs it imposes on the insur-

ance system. The merits of such an approach would have to be weighed against any extra administrative complexity and paper burden for employers that might arise.

It should be noted that the concept of Adjustment Insurance would introduce an element of experience rating into the benefit side of the UI program, and may offer an administratively simpler and more effective approach to addressing these issues.

#### ***4. Reduced premiums for employers who support training***

Another option that should be examined is reducing premiums for employers who support training to an appropriately certified standard. This would include employers who upgrade the skills of their own workers, as well as those who provide work experience and on-the-job training for the unemployed.

In a sense, this option is based on the same rationale that would support experience rating. Employers who support training are making an investment that might lessen the burden on the UI Account. This could be seen as a contribution to the broader employment goals of a reformed UI and employment development services system.

#### **Financing employment development services**

As discussed earlier, the principal source of funds for enhanced employment development services for more people would be reallocation from a reformed UI program. The extent of such a reallocation will of course depend on both the extent of UI reform, and the split of resulting “savings” between premium reductions and enhanced employment development services. In considering these options, it will be necessary to balance two ways of encouraging job creation: reducing payroll taxes, and improving employment development services.

A secondary source of “savings” for reallocation will be administrative simplification. For example, new technologies are available to automate many services that are now labour intensive, such as posting job openings and maintaining hardcopy claimant records. Similarly, the bureaucratic red tape and thousands of hours devoted by both employers and government employees to handling Records of Employment could be significantly reduced through a simplification of the legislation, coupled with greater use of technology. These actions would free up time and resources to devote to more value-added services such as individual counselling.

Current financing arrangements separate participants into two groups: UI claimants who have access to the Developmental Uses funds associated with the Unemployment Insurance system, and others whose access to training is financed from the federal government’s Consolidated Revenue Fund. Ideally, reform would make it easier for a flexible range of employment services to be accessible based on individual needs, rather than program funding rules.

## D. Meeting the needs of working parents

Changes in the economy and the workplace are affecting the needs of working parents. Any discussion of social security reform based on improving access to employment must take these changing needs into account. The challenge is not only to have the right skills for employment. It includes having the opportunity to take a job. For an increasing number of Canadians, this opportunity depends on finding new ways to balance work and family responsibilities.

### Child care

Most Canadian parents – including lone parents and those with pre-school children – are now in the labour force. Finding and paying for child care is one of their biggest concerns. In many cases, the lack of affordable, high quality child care is an insurmountable barrier to a job.

The federal government now spends over \$400 million on child care services, mainly through the Canada Assistance Plan. Currently there are 360,000 regulated child care spaces across Canada for children under 13; approximately 150,000 of these spaces are subsidized for low-income families. Some 270,000 spaces are available for the one million pre-school children with parents working or studying more than 20 hours per week.

The federal government sees child care as a priority for the reform of social security programs, lying at the heart of the three areas addressed by this Discussion Paper: working, learning and security. It is a critical support for employment, because it provides working parents with the assurance of quality care for their children. But child care is more than an employment measure if it also provides children with a good environment in which to grow and learn. Effective child care can help to ensure the future employment success of children who might otherwise be at risk.

The federal government is committed to supporting the provinces with a view to expanding the availability of child care in Canada. The Government's campaign platform outlined a commitment of \$720 million over three years to provide for the subsidization or creation of up to 150,000 spaces. As a first step, the February 1994 Budget set aside \$360 million over two years for this purpose, to begin after a year of 3 per cent economic growth. Forecasts for 1994 indicate growth in excess of 3 per cent, which would allow the new funds to be phased in, starting in 1995-96.

The design and delivery of child care and social services are provincial responsibilities. Accordingly, the federal government will need to agree with the provinces on how this money should best be spent in pursuit of a better-designed framework for child care. There are a number of ways that the funding for child care could be used. In some parts of Canada, new spaces are required; in others affordability is the problem. In still other areas, new types of child care are needed, to accommodate such things as nonstandard work. The choices made are important. Any additional investment over the next several years could pay

“The challenge is not only to have the right skills for employment. It includes having the opportunity to take a job. For an increasing number of Canadians, this opportunity depends on finding new ways to balance work and family responsibilities.”

multiple dividends in the future from a more productive work force, jobs for child care workers, reduced pressure on overburdened income support programs, and enhanced development of children.

Some provinces are interested in developing new child care services within a broader perspective of child development. Such an approach would facilitate access to facilities like community-based family resource centres, perhaps building on provincial initiatives such as Ontario's "Better Beginnings, Better Futures" program. Under provincial direction, services could be tailored to meet the specific needs and utilize the resources of a particular community.

There are a number of potential advantages to expanding regulated child care within the context of community-based child development services. One advantage is cost and efficiency. Child development services could be planned and delivered along with regulated child care at the community level, using the same facilities wherever possible. Families could access, in one place, a range of different services and supports from various sources.

Linking child care and child development could represent a comprehensive and preventative approach to social problems at the earliest point of life. Rather than using our money to rectify social problems which eventually occur as a result of a lack of support or security for young children, investment at the front end could save us enormously in both human and financial costs ten or twenty years down the line.

One example of the federal government's commitment to early childhood development is the plan to spend \$100 million, through 1997-98, to support Head Start pilot projects for pre-school Aboriginal children within urban centres and large Northern communities. Their success could serve as the basis for future expansion. Health Canada is consulting with Aboriginal, provincial and territorial representatives on the design of this program. A portion of the new funding for child care will also be allocated for on-reserve child care.

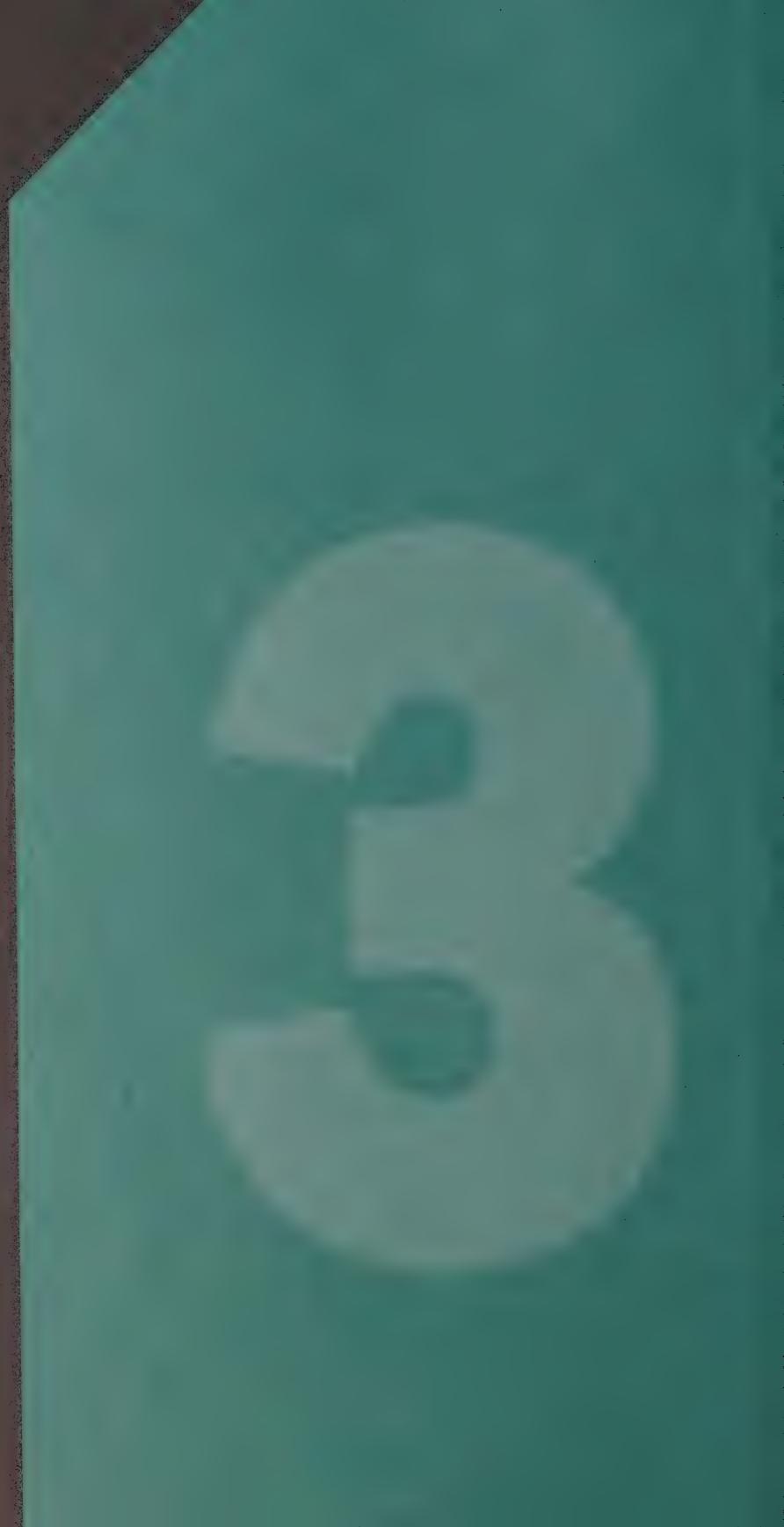
### **Flexible work arrangements**

Rigid work arrangements can affect people's lives and their productivity at work, and sometimes act as barriers to employment. Policies concerning issues such as part-time work and flexible work schedules have a direct impact on the growing number of parents who must balance family and work responsibilities. Flexible work time, a compressed work week and job sharing formulas are examples of supportive arrangements that take into account the needs of many of today's workers.

The Minister's Advisory Group on Working Time and the Distribution of Work is exploring a range of issues related to work distribution, working time and flexible working arrangements in Canadian society. Its report to the Minister this fall will be made public to stimulate debate on these important issues.

The federal government is continuing to assess its own employment practices to learn how it can provide greater opportunities for flexible work arrangements. It will also continue to support the development and exchange of materials on flexible work arrangements and make this information readily available to employers and unions throughout the country.

# Learning: Making lifelong learning a way of life



## Introduction

### Changing times: The case for lifelong learning

Canada's historically strong commitment to education and learning has been a vital source of our enormous economic success; a central reason why, in the decades following the end of the Second World War, Canada emerged as one of the world's most prosperous nations.

What Canadians have known for decades is now well understood around the world: a key benchmark of any nation's prosperity is the size and affluence of its middle class. Rich, successful countries usually have a middle class that's expanding, becoming more inclusive. In poor countries the middle class is small; in stagnating countries it is in decline. So it's no wonder that encouraging the growth of the middle class through universal educational opportunity has now caught on everywhere as the most potent economic development program ever devised. And even in "rich" developed countries, where the link between knowledge and well-being has been well tested, there has been a constant pressure to sharpen the competitive edge by raising the educational yardsticks.

In Canada, education falls within provincial jurisdiction. Clearly, the enormous investment in education over the years by provincial governments, buttressed by federal financial support, has paid big dividends. As a nation we spend the equivalent of 2.6 per cent of the value of our entire economy each year on post-secondary education alone. That's a greater share of GDP than any other nation. Fully 60 per cent of Canadian high school graduates go straight on to some form of higher learning at a post-secondary institution.

This commitment to learning opportunity has played a vital role in our national development and in what we have accomplished: a smallish nation of only 29 million people has been able to create one of the world's Top Ten economies with a top-rung standard of living.



"It is now widely acknowledged that one of the keys to both greater social justice and improved productivity and competitiveness is the development of our human resources. This involves our investment in the knowledge, creativity, skills and motivation of individuals – a critical input without which our technological and economic progress will founder."

*The Standing Committee on Human Resources Development, Interim Report, 1994*

"Thus, as a new century beckons, we again must push our nation's learning yardsticks further out — much further. In the balance is our ability to preserve our position as one of the world's most prosperous societies."

But our past commitment to education cannot guarantee our nation's continued economic success. Already, some worrying signs are appearing. Our envied place in the world community is being challenged. Around the globe, in Asia and Latin America, newly industrializing nations are charging forward, capitalizing on the technologies of tomorrow with workforces that are increasingly well educated, capable and sophisticated.

Thus, as a new century beckons, we again must push our nation's learning yardsticks further out — much further. In the balance is our ability to preserve our position as one of the world's most prosperous societies. If our standard of living is to be secure, one of our urgent tasks must be to strengthen our learning and training system. As a trading nation, for example, Canadians will need to sharpen their language skills and knowledge of other cultures, in order to reach out successfully to our trading partners. Our collective mission must be to recapture the post-war expectation of expanding prosperity and opportunity for all, with each generation better off than the last. We did it before; we can do it again. An indispensable ingredient is better learning.

Chapter 1 described some of the fundamental changes buffeting the world of work. Rapid technological advances, the globalization of innovation, the reshaping of our work and home lives around the microchip and telecommunications revolutions — all this has underscored the point that knowledge and occupational skills cannot stand still. More than ever before, up-to-date knowledge is the hard currency in demand in today's labour market.

At the very least, the pace of change affecting every occupation and profession has created a near universal need for working Canadians to update continually their old skills and acquire new ones. In the 21st century, the traditional idea of job security within a particular firm or industry will be mostly obsolete; instead, individuals will have an active role in creating their own career security, based on a willingness routinely to expand and improve their employment skills. If they fail to do so, as a way of adapting to change, they will risk being left behind in the workplace, thereby risking lower wages or job loss.

This concept of Canadian workers updating, improving and upgrading the knowledge and know-how they bring to their jobs periodically throughout their careers is known as ***lifelong or continuous learning***. Within the next decade, lifelong learning must become a way of life for Canadians, consigning to the history books the quaint idea many of us grew up with, that formal learning is strictly for children and young adults.

As noted in the previous chapter, literacy forms the base for lifelong learning. Transitions from school-to-work, from unemployment to employment, from one job to another, all require a set of basic reading, writing and numeracy skills which allow people not only to find work but to keep it.

Lifelong learning is fundamentally an individual task. But if it is to take root as part of the everyday landscape of the dynamic, internationally competitive Canadian workplace of tomorrow, more is needed. Employers, gov-

ernments and learning institutions all need to play a leadership role in fostering this crucial shift to a learning culture.

## History of the federal government role

In Canada, as already noted, the provinces are responsible for education at every level, from pre-school to post-secondary education. However, since Confederation, and particularly since the Second World War, the federal government *has* played an important support role, largely related to helping the provinces build and maintain their networks of post-secondary institutions. This involvement has been rooted in two concerns deriving from the federal government's overall responsibility for the well-being of the federation. First, a recognition of the crucial role played by colleges and universities in the creation of an ever more highly-trained workforce as an essential ingredient in the health of the national economy; and second, a desire that Canadians in all regions have equivalent access to post-secondary learning. Following from the second concern is the federal interest to facilitate the mobility of students from province to province across Canada.

In the early years after Confederation, federal support for national post-secondary education was relatively episodic. It ran the gamut, for example, from providing a land grant in 1885 to help establish the University of Manitoba, to the creation of the National Research Council in 1916 with a mandate including support for university research. Right after the Second World War, the federal government offered financial assistance to war veterans to attend university, and made direct grants to the universities themselves to help them accommodate the influx of veterans.

In 1951, federal government support became more structured, with the offer of annual direct grants to universities based on the population of each province, and each institution's share of provincial enrolment. This grant program was the forerunner of formal federal cost-sharing, begun in 1966, to support 50 per cent of the then-ballooning operating cost of post-secondary education. The federal post-secondary education cost-sharing arrangement was converted to a no-strings attached block funding program in 1977, consisting of transfers to the provinces of cash and tax points. Under this Established Programs Financing (EPF) approach, which is still in place, the federal government's contribution is no longer directly linked to the annual operating costs of the post-secondary education system borne by the provinces.

Beginning in 1960, the federal government sharply increased its support for employment training at community colleges and institutes of technology. Four years later, in 1964, it launched the Canada Student Loans Program in all provinces except Québec, which received an alternative payment to help establish its own system. Later, the Northwest Territories also set up its own system.

The federal government also has a long history of support for academic research in Canada, starting with the establishment of the National Research Council mentioned above, and continuing with the creation of the Canada Council in 1957, the Medical Research Council in 1969, the Natural Sciences and Engineering Research Council in 1978, and the Social Sciences and Humanities Research Council, also in 1978.

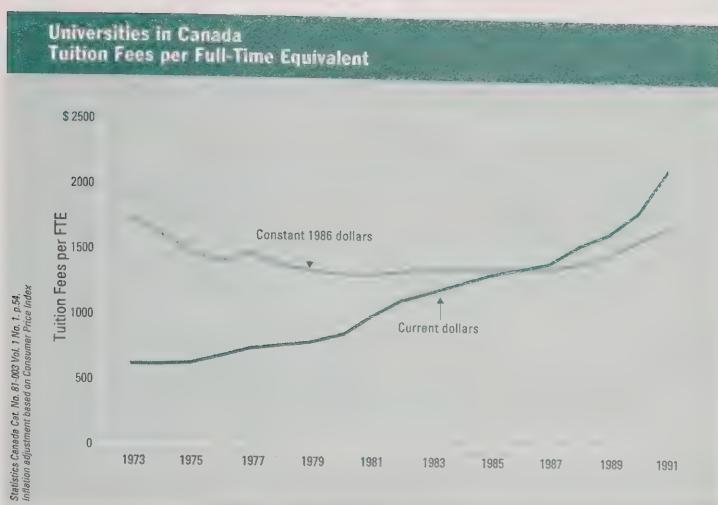
Today, federal support for post-secondary education totals \$8 billion annually — accounting for about half of the system's \$16 billion cost. The biggest component is \$6.1 billion transferred to the provinces each year under the EPF arrangements mentioned above, consisting currently of \$3.5 billion worth of tax room and \$2.6 billion in cash. Then there's the \$500 million expenditure on the Canada Student Loans Program, which supports nearly \$1 billion worth of grants and loans to students. The remainder of the federal support includes various programs, notably research grants by federal granting councils. Federal budget restraints mean that after rising rapidly during the 1960s and 1970s, and at a more modest pace since, total federal contributions to the provinces for post-secondary education (cash and tax points together) will at best remain flat in the years ahead. As outlined in Chapter 2, the federal government, in addition, spends nearly \$3.3 billion a year on training, including \$1.9 billion under the Developmental Uses funds portion of Unemployment Insurance. About 50 per cent of this is spent on courses purchased from provincial institutions, and related income support for trainees.

## How should the federal role evolve?

### **Issue: Continuing access to learning opportunities**

As noted already, Canadians have enjoyed access to advanced learning which is unmatched around the world. However, tuition fees for university education have nearly doubled in many provinces over the past ten years; in real terms, tuition fees have increased in many provinces by up to 50 per cent over this period. The proportion of university costs borne by students has also risen over the past decade, after falling steadily for the previous three decades. There is no reason to suppose that these trends have run their course. It is essential to ensure that Canadian students continue to have access to the resources required to pay their rising share of post-secondary education costs.

At the same time, tens of thousands of people already in the work force, but with inadequate or out-of-date skills, are increasingly worried about falling through a trap door to dead-end jobs or unemployment. A nagging gap in Canada's learning system is inadequate opportunity for self-improvement. A significant segment of the workforce, which can be labelled the "bootstrappers", are determined to get ahead, but face barriers to upgrading their skills. They are unhappy with their current lot and are anxious to seize control of their economic destinies through training or higher education. They



want help to improve their own prospects. They are eager to obtain the skills that will move them from job insecurity today in the old economy to employment security and better incomes in the new, computer-based economy. What they need is easier access to learning.

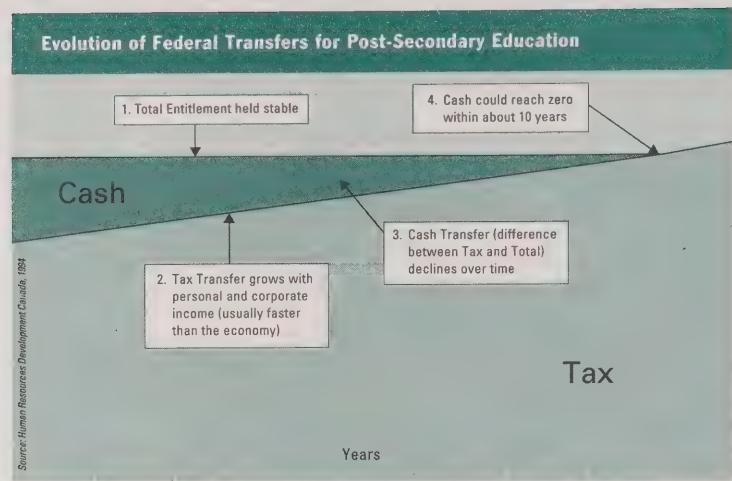
### Following the present course

As indicated earlier, as a result of the 1994 federal Budget, transfers to the provinces for post-secondary education will at best remain frozen at 1993-94 levels, beginning in 1996-97. This has important implications for the future composition of the transfer.

In a nutshell, every year the provinces get a larger share of their Post-Secondary Education (PSE) transfer in the form of money raised through the tax points that were transferred to them by the federal government. This reflects the fact that, with the economy growing, each tax point in the hands of the provinces brings in a larger amount of revenue year after year. Since the overall transfer is not growing, the cash component is steadily declining. With the total transfer maintained at 1993-94 levels beginning in 1996-97, the cash will run out within about ten years. This is illustrated in the chart on the next page.

What does this mean for the federal contribution to post-secondary education? First, it must be emphasized that the tax room transferred to the provinces under the EPF arrangements, which currently raises for the provinces \$3.5 billion (an amount which is increasing each year), is there in perpetuity. The federal tax points amount to a permanent, growing federal endowment to help support provincial post-secondary education costs.

For now, that leaves the smaller, and shrinking cash component, worth \$2.6 billion this year, declining to about \$2.0 billion in 1996-97. Following on the present track, the federal government could simply opt to let the decline



in federal cash run its course so that, within a matter of a decade, the full PSE transfer would be financed from tax points.

Is this the best strategic way for the federal government and the provinces to meet the goal of achieving wider accessibility to higher education — not just for high school graduates, but also for mature students seeking to upgrade their skills? Or is there a better approach that would entail replacing the declining cash transfers over the coming years with more stable alternative forms of support that would help Canadians to borrow and save to get the higher education they need? The federal government is interested in exploring such an option.

### **Financing lifelong learning: A possible new approach**

Rather than simply adopting a hands-off approach to the decline and eventual disappearance of the federal PSE cash transfer, action could be taken promptly to shift that spending from support to institutions via the provinces, to a system of expanded student loans and restructured grants to individuals. In effect, this approach would replace declining cash transfers with a secure and stable source of student assistance that, in conjunction with the growing endowment of EPF-PSE tax points, would ensure that the total resources available continue to grow over time.

As an example of this approach, a suitably designed income contingent repayment loans plan might provide up to four dollars in loans for every dollar of cash the federal government puts into it. Although there are many ways to arrange the details of such an approach, the basic idea is that federal resources would be used to make or to guarantee loans to individuals. Access to tuition loan funding would not depend on proving “need”. Any such aid would be in addition to the \$1 billion in loans and grants provided through existing programs. It would be possible for provinces to opt out and run their own similar

schemes, much as Québec now does with the existing student loans program. However the details are devised with the provinces, the goal would be to preserve and broaden Canadians' access to the post-secondary system, by providing a long-term, sustainable source of funding for the system. The government would also review other federal objectives linked to post-secondary education such as support of university research.

This goal must include spreading access to federal spending on learning across a wider group of people, including those who are looking for ways to gain access to needed retraining once they have entered the workplace. Today, for example, the 30 year-old low-wage seamstress who wants to become a clothing designer has trouble finding the money to finance training. Yet that person should have as much chance of obtaining help as the 18 year-old wanting to study philosophy, nursing or accounting. Help should also be available to social assistance or UI recipients for whom post-secondary education would make sense.

As noted earlier, tuition fees have risen over the past decade. It could thus be attractive to secure soon, an on-going source of loans to help students cope with rising tuitions. It is true that replacing federal cash transfers would put upward pressure on tuition fees. This may be a necessary price to pay to put in place a permanent system for ensuring accessibility to post-secondary education. Continuing with the existing course would see the cash transfers disappear over the coming decade, with tuition fees continuing to rise, but with no mechanism to sustain broad accessibility for Canadians.

At the same time, increased flexibility in Registered Retirement Savings Plans (RRSP) could also be considered to encourage personal savings for life-long learning. Such a scheme could, for example, be based on the model of the First-Time Homebuyers' Plan, and would further expand the resource base for learning in Canada. Individuals could use these sources to help pay for tuition or living expenses while attending a certified education or training program.

A combination of these approaches — expanded student loans plus improved savings investment vehicles — offers an alternative to the present course. Federal funds would be used to lever private money which could sustain and expand access to higher learning. The new forms of assistance to individual learners would be used both by young people going to college or university, and by mid-career boot-strappers keen to upgrade their skills. This approach would also reinforce the idea of encouraging mutual responsibility among Canadians for managing a greater share of their own social security.

### **Keeping access fair: Income contingent repayment loans**

Consistent with this idea of mutual responsibility, one possibility would be to introduce a new type of student loan. These loans, like the existing student loans, would be repayable only after the borrower had left college or university and entered the work force. At that point, however, the borrower's repayment schedule would be adjusted to match his or her ability to repay, depending on income. Individuals would repay as they develop the financial capability to do

so. A student's income after leaving school would determine the rate of repayment. Borrowers who earn less, would bear a smaller annual repayment load.

If fiscal constraints on governments mean that students must bear a larger share of the costs of their education or training, then linking repayment more closely to ability to pay has an obvious element of fairness. This is particularly true in view of the substantially improved lifetime earnings and reduced risk of unemployment of post-secondary graduates, compared to those with lower levels of education.

Income Contingent Repayment (ICR) loans could be tied into the income tax system so that loan repayments could be deducted from every paycheque at source along with income tax payments. Income contingent repayment programs have already been implemented in Australia and New Zealand.

There are many possible variations on the basic idea. For example, existing loan support under the Canada Student Loans Program (CSLP) could continue to be available to students who need help financing tuition fees and living expenses up to current levels. This would complement provincial government grants and loans. In fact, new legislation to overhaul the CSLP passed this year allows increased loan limits. The ICR approach could then be applied to future tuition increases, and to expanding access to learners not now eligible for help through the existing programs. Or the existing loan programs could be integrated with an ICR program. Obviously, there are also many other details that would have to be determined, such as method of financing, eligibility for loans, repayment arrangements, interest rates and so on.

There is also a variety of institutional and administrative arrangements that could be envisioned for the operation of an expanded loans program. Options include: government guarantees of private lending by financial institutions; federal direct lending — or, if provinces prefer, provincial direct lending; setting up an arm's length Crown agency, possibly jointly with interested provinces; and so on. Ideally, the arrangement with the lowest overhead consistent with sound stewardship would be best suited to expanding student access to post-secondary learning.

## Supporting the provinces on lifelong learning

As noted already, the federal government believes there is a need to rethink how it supports the provinces in the area of learning. Beyond resolving the central issue of how best to preserve and expand access to higher learning, the federal government needs to determine with the provinces where it can best contribute to making lifelong learning a way of life.

To that end, the federal government in its Youth Employment and Learning Strategy announced in April, 1994, confirmed its collaboration with the Council of Ministers of Education, Canada (CMEC) in establishing a set

of national learning goals, developing ways to measure results, and promoting technology and innovation in learning. The federal government also endorses the CMEC joint declaration of September 28, 1993 which, among other things, said the following:

*"We believe that education is a lifelong learning process.... National cooperation, in the context of lifelong learning, [will include] all of our partners — students, parents, educators, trustees, education organizations, federations and institutions, business and labour, as well as appropriate federal departments and agencies . . .*

*While individual provinces and territories remain responsible for education in their jurisdictions, there has never been a greater need for joint action. We believe that our collective will to work together will create a synergy that will benefit each province."*

The federal government has supported experiments with provincial governments searching for new approaches to tackling adult illiteracy, and to preparing young people for the labour market, for example. Now our challenge is to help ensure access to continuous learning for the greatest possible number of Canadians through the best use of limited public resources. Provincial and territorial governments, individually, and through CMEC have already launched fundamental reviews of the learning systems under their jurisdiction, and have started a wide range of innovations to support lifelong learning. The federal government wants to make sure that its efforts complement and reinforce these initiatives.

Following are several areas which the federal government would like to discuss with CMEC and the provinces as possible priority fields where the federal government can help, within planned budgets, to make a difference in promoting lifelong learning.

## **1. The school-to-work transition**

In times of slower economic growth and high unemployment, young people face extraordinary obstacles in landing their first job — the crucial stepping stone to a productive career. Thus, achieving a better school-to-work transition requires building a much better system for teaching young people the up-to-date skills they need to get a first job and succeed in the labour market. It demands stronger linkages and communication among the various actors in the schools and the workplace. So far, Canada has been slow in building the right sort of training "bridges" to carry young people successfully from the world of school to the modern world of work.

Increasingly, it is clear that successfully building these "bridges" will require close cooperation among governments, educators, employers, unions and communities. To encourage these approaches, the federal government recently has announced two programs targeted at assisting in the school-to-work

transition. Through the Youth Internship Program, the federal government will work with the provinces, territories, industry sector councils and communities to develop up to 20,000 internship places each year for young people. Youth Service Canada, on the other hand, will offer young people an opportunity to get basic work experience by performing useful community service. When fully operational, 10,000 young Canadians will be participating in this program across the country.

These approaches provide an important contribution to assisting the school-to-work transition. But with as many as 250,000 students leaving school to enter the workforce each year without further training, there is plenty of scope for improvement. The federal government would like to work with the provinces and the private sector to see what else might be done within available resources to close what is evidently still a large gap in moving from school into the world of work.

## 2. Making learning more portable

Smoothing the job-to-job transition, as discussed in Chapter 2, will also require breaking down the barriers within our learning system. We need to find ways to increase the flexibility of the system, and the mobility of adult students. Throughout their lives, people need the ability to move efficiently between various educational and training institutions, and the workplace. The federal government is keen to support ongoing efforts by provinces and territories to make learning more portable among schools and institutions across the country. Individuals may start their course of study while living in one province, and wish to continue after moving to another region of the country. These lifelong learners must be able to resume their studies as seamlessly as possible.

One initiative that would allow Canadians to make effective transitions between different learning experiences, on the job and at various institutions, is a **Learning Passport**. The Passport would, in one place, document an individual's learning experiences as well as any academic and vocational credentials,

### Helping youth build their future

In June 1994, the federal government and the government of Newfoundland launched *"Transitions —the Changes Within" Education to Work, Work to Education*, a Strategic Initiative that will help an estimated 5,300 students, recent graduates and unemployed individuals continue their education or find work. The initiative includes:

- the Student Work and Service program, which helps those who have difficulty finding employment continue post-secondary education;
- the Strategic Employment Opportunities program, providing employment and training opportunities to unemployed and underemployed workers in growth sectors such as innovative technologies, environmental industries, aquaculture and manufacturing; and
- the Graduate Employment/Self-Employment program, which tests new ways of delivering employment programs for post-secondary students.

and would be recognized across the country by employers and learning institutions. Such as Passport would, of course, require the provinces' agreement and collaboration.

Immigrants to Canada face special barriers to the portability of learning credentials. At present, immigrants face serious complications in seeking to establish their learning status in Canada. Some provinces have taken steps to help individuals gain recognition of foreign credentials. The federal government is interested in working with the provinces, employers and unions, and voluntary groups to develop a Canada-wide system of credits recognition to assist immigrants to find and keep meaningful employment, commensurate with their skills and knowledge.

### **3. Learning and new technology**

New technology offers another avenue for expanding access to the traditional world of learning. Innovative approaches to distance education or computer-assisted learning, for example, are already underway in educational institutions across Canada, and both federal and provincial governments are working on a number of these initiatives. For many communities, whether in the city or far from an urban centre, computer technology brings new opportunities to people who might otherwise never have access to learning.

The federal government has a role to ensure that the "information highway" can be used to expand access to learning opportunities across the country. To assist in developing this field, the federal government proposes to examine with the provinces, learning institutions and the private sector the role technology can play in learning, and to facilitate initiatives and partnerships.

### **4. International educational opportunities**

A key challenge for Canada's lifelong learners in today's global economy is acquiring a better understanding of technological developments and best practices employed abroad. If we are to remain competitive as a trading nation, international education must become a stronger priority. Increasingly, this will mean acquiring specialized skills or education in a foreign country. Currently, Canada plays host to about 63,000 foreign post-secondary students, contributing more than \$600 million to the economy. On the other hand, only 24,000 Canadians were studying abroad in 1992, over 19,000 of whom were in the United States. We need to foster more Canadian exposure to international education, both by receiving foreign students and by encouraging Canadians to study abroad.

Canada lags badly in the breadth and scope of formal links between our learning institutions and their counterparts in other countries. We need to catch up by rapidly expanding our learning connections to international education institutions. These networks, such as the European Erasmus Program linking colleges, universities and research institutes across the continent, would facilitate exchanges of students, faculty and information.

# Security: Building opportunity for people in need



## Introduction

Social security is society's commitment to take care of its most vulnerable citizens — people without work, lone parents with limited means struggling to raise a family, children in poverty, and people who face barriers to employment due to disability or chronic illness.

Every Canadian must have confidence in that commitment. Yet today, in an era of turbulent social and economic change, the demands and pressures on the social security system are putting the commitment under strain. More than ever before, people are being required to adapt to sudden shifts in circumstances beyond their control. In the workplace, for example, new technology and intensifying global competition may make proven job skills suddenly redundant or insufficient. The result: insecurity in the form of layoffs or lower wages. In the home, family break-up can leave children and their custodial parent, usually the mother, facing an abrupt transition into poverty. Canadians must adapt to change, but they must also know that, when needed, effective supports and services will be there both to see them through times of trouble and to help open up new opportunities. Our social security system must offer protection and hope.

Today, our security system is not working as well as it might. It is not serving Canadians in need as effectively as they deserve. It is showing signs of wear, and must be reformed.

Among the most serious evidence that the system is misfiring is the high and persistent level of children's poverty. As noted in Chapter 1, one common estimate suggests that as many as one child out of five lives in poverty. Canada's record among industrialized countries is not enviable. Both the Canadian child poverty group *Campaign 2000* in their 1993 report card, and UNICEF in its 1994 the *Progress of Nations* report, cite findings of an academic group known as the Luxembourg Income Study. On the number of children living below a standardized measure of poverty, Canada placed poorly during the 1980s

"Canadians must adapt to change, but they must also know that, when needed, effective supports and services will be there both to see them through times of trouble and to help open up new opportunities. Our social security system must offer protection and hope."

compared to European countries such as France, Germany and the United Kingdom. Among the industrialized nations, only the United States had a larger proportion of poor children.

The best way to fight child poverty is for parents of poor families to have a job. Much of what we have said so far in this Paper aims at helping people get and keep jobs. At the same time, however, many low-income parents need support in making the transition to the world of work. Not only that, but combating child poverty is inextricably linked to reducing the cost of social assistance. If Canadians seek to return welfare to one of its most important original purposes of offering short-term emergency assistance, then we must provide better stepping stones off social assistance. If young single mothers are to make the leap successfully from social assistance to the independence of a job — even a low-paying one — there must be better assurance that more of the basic costs of child-rearing can be met. Without stronger support for low-wage working parents, too many disadvantaged families will continue to get caught in the welfare trap — for the very good reason that they and their children seem better off there. But if the best form of security is a job, the price of staying on welfare is high. Moreover, children who grow up on society's sidelines, risk the continuation of a cycle of low achievement and joblessness.

Rebuilding our social security system to tackle child poverty more effectively is not simply a matter of social justice as we prepare for a new century. Reducing child poverty is also a hard-headed investment in strengthening our society and economy. It's good for all of us. We know that poverty and hunger wreak a terrible discrimination on children; they can weaken early development and diminish performance at school; and eventually they can cascade into adulthood in the form of incomplete education and poor job prospects. For the sake of trimming tomorrow's unemployment rolls, and for the children themselves, we must do a better job of helping children now.

Rebuilding could also focus on realigning programs to reflect the goals of independent living and improved access to the economic and social mainstream for persons with disabilities. Too many persons with disabilities are still obliged to depend on welfare and pensions. Too often they are excluded from opportunities to participate in and contribute to community life. For example, half of adults with disabilities are outside the labour force; more than 20 per cent of the welfare caseload is comprised of persons with disabilities. Removing barriers and giving people the tools to help themselves can benefit the individuals, their families, and society as a whole.

The social security system must become a true service centre for people, providing the tools they need to move into the job market with confidence, and become self-sufficient. How the system ought to be transformed will be the subject of public debate and discussions among governments over the coming months. This chapter lays out some ideas to stimulate that dialogue.

## What the federal government does now

Provinces have jurisdiction for social assistance and social services. The federal government, however, has provided significant financial support to the provinces, mainly within the framework of the Canada Assistance Plan. With respect to supporting children, the federal role dates back to the introduction of the child tax exemption in 1918. This was expanded after the Second World War with the Family Allowance Program. In 1993, federal support to families with children was consolidated into the Child Tax Benefit. Therefore, the federal programs which need to be reviewed are the Canada Assistance Plan (CAP) and the Child Tax Benefit. As explained in the Introduction, another major component of Canada's social security system, seniors' pensions, is not part of this reform process.

### The Canada Assistance Plan (CAP)

A key tool in the effort to combat poverty, CAP was introduced in 1966 as a comprehensive plan for federal cost-sharing of provincial welfare programs, and to promote the development of social services across Canada. Before CAP, the federal government cost-shared on a piecemeal basis certain provincial welfare programs aimed at particular groups, such as the elderly, persons with disabilities and unemployed people. Under the Canada Assistance Plan legislation, the federal government agreed to share up to 50 per cent of the eligible costs incurred by the provinces and territories in providing social assistance to people "in need", as well as social services for those "in need" or "likely to become in need". CAP's comprehensive "social safety net" approach widened the scope of social assistance, and helped fund the development and maturation of the modern provincial social services systems we have today.

Under CAP, the federal government shares in the costs of provincial and municipal social assistance. This covers basic requirements for persons in need (food, shelter, clothing, household supplies), and special needs related for example to safety, well-being or rehabilitation (such as wheelchairs or prosthetics). This accounts for roughly two-thirds of CAP spending. The remaining one-third goes to help pay for services for people in need or likely to be in need if the service is not provided. This includes home care, non-insured health services, and welfare services (such as counselling and assessment, child welfare and adoption, day care, etc.)

The number of social assistance recipients in Canada has doubled since 1981 from 1.4 million to just over 3 million, and CAP expenditures have increased from \$2.6 billion to \$8.2 billion in current dollars.

### The Child Tax Benefit

This benefit, which goes to 3 million Canadian families with children was introduced in 1993, replacing a system of universal family allowances and child tax credits.

## Strategic Initiatives

### Helping people help themselves

New Strategic Initiatives developed in partnership with provinces and territories explore ways to enhance self-sufficiency and independence for participants:

- in Prince Edward Island, **Choice and Opportunity** will give about 2,000 persons who have an intellectual disability the opportunity to take a more active social and economic role in the community. The initiative will test ways to streamline services for persons with an intellectual disability while involving them in decisions about the services they need.
- in the Northwest Territories, **Investing in People** provides counselling, career and life skills, on-the-job experience and education to welfare recipients. The initiative will test new models for training in remote northern communities which bridge traditional occupations with those of the modern world of work. The program relies on extensive community involvement, including land claims groups, Arctic colleges, municipal governments and hunter/trapper associations.
- in Nova Scotia, **Compass** will provide training and employment opportunities to about 3,000 adults, including unemployed youth, single parents and unemployed workers from the fisheries on social assistance. The program tailors help to participants' level of training and employment readiness. One option helps welfare recipients start up their own business.

As noted earlier, income assistance to families with children is, in fact, one of the oldest components of Canada's social security system. The idea is to recognize the additional costs borne by families that raise children. Child benefits are especially important for poor families, helping to fill the gap between low wages or welfare and the resources needed for child rearing. Some provinces, notably Québec, provide additional significant child benefits.

Today, the Child Tax Benefit provides qualifying families, based on an income test, with monthly payments resulting in a basic annual benefit of \$1,020 for each child aged 17 or under, and additional benefits depending on the number and ages of the children. All families with incomes under \$60,000 receive some Child Tax Benefit payments. The total cost of the program in 1994 is \$5.1 billion.

A Working Income Supplement of up to \$500 is added for families earning between \$3,750 and \$25,921 annually. This supplemental incentive is aimed at making work pay, and at offsetting some of the costs associated with employment, thus helping parents to move from welfare to employment. The motivating idea is that parents who have jobs are better able to keep their children out of poverty. Twenty-three per cent of the 3 million families who receive the Child Tax Benefit also qualify for the Working Income Supplement.

### The need for CAP reform

Many Canadians rely on social assistance during temporary misfortune, and for them the system works the way it should. But too many recipients spend many years on social assistance even though, with the right sort of employment and training support, they could successfully make the transition from welfare to work, from dependency to self-sufficiency.

It is estimated that in March, 1993 at least 45 per cent of all social assistance households were headed by an "employable" person, up more than 10 per cent since 1980. Today's social security system doesn't adequately foster self-sufficiency, promote independence, and help people prepare for work. It also presents barriers to lone mothers, persons with disabilities and others who would prefer to take paid employment.

One problem is that CAP's restrictive provisions prevent federal funding from being used to support innovative provincial measures aimed at helping people make the transition from welfare to greater self-reliance. For many social assistance recipients, a low-wage job — even a part-time one — by adding to one's income can mean a sharp drop in assistance, including the loss of valuable dental, drug or disability-related benefits. Given the way welfare rates are structured, some families can be net losers if a parent starts back into the labour force with a low-paying job.

To overcome the disincentive to leave welfare for work, some provincial governments have introduced low-wage earner top-up payments that effectively allow welfare recipients to keep some assistance once they find work. The

idea is that work should result in more, not less income. Québec's Parental Wage Assistance Program, APPORT, bolsters the wages of working parents and directly subsidizes day care costs. Manitoba and Saskatchewan also provide benefits to low-income families with children. Several provinces provide special tax assistance for low-income families. Some provinces have developed "bridging" mechanisms such as enhanced earnings exemptions, temporary extensions of non-cash benefits, and reduced tax-back rates, despite the impediments currently present in CAP.

CAP was not designed to help finance income-tested supplementation programs like APPORT. As a result, most working poor parents eligible for APPORT assistance would not qualify for help on the basis of CAP's restrictive needs test.

CAP currently provides benefits for approximately 320,000 adults with disabilities who are heads of households (20 per cent of the overall caseload). For them, the system inhibits integration and participation in the economy. Most persons with disabilities are classified as "permanently unemployable", which may give them access to higher income assistance and disability-related supports and services. Being classified as "permanently unemployable", however, virtually locks many people into the welfare system. This is the case despite the fact that many so-called "unemployables" would be willing to join the world of work, with all that means for self-reliance and self-respect, if they could retain appropriate supports during training and into employment.

Other CAP restrictions mean that it can't be used to co-finance some provincial programs that are aimed at preventing social insecurity among children and addressing the needs of children living in poverty. The benefits of investing in services that support good parenting and caregiving during the early stages of a child's life and provide the positive social and emotional development that will prepare children for school are clear.

CAP is geared primarily to alleviating the crisis — helping people after the fact, or on the verge of a serious problem — not stepping in to remove the cause of a potential problem. As a result, few provincial initiatives to offer innovative programs geared to prevention for disadvantaged families, from self-help or parenting supports, to parent pre-school resource centres and enriched pre-school programs, are being cost-shared under CAP.

Another reason for rethinking CAP is the disparities in federal financial support for social assistance recipients in different parts of the country, resulting from the CAP ceilings imposed in 1990 on the three provinces not receiving equalization payments (Ontario, Alberta and British Columbia). That ceiling has had an uneven impact on federal financial support for social assistance recipients across Canada. Fairness suggests a need to examine how the social security system can be redesigned to provide comparable levels of federal support for people on social assistance throughout the country. Finally, it needs to be recognized that any movement towards greater fairness will be made easier by the very success of the reforms suggested, to the extent that they help social assistance recipients in all provinces escape from welfare dependence.

As indicated in Chapter 1, any approach to reform must reflect the fiscal constraints on programs in this area. Given the fiscal context, in 1996-97 and beyond, funding for CAP or possible successor programs will not exceed its 1993-94 funding level of about \$7.7 billion.

## The goals for reform

Based on this assessment of the need for reform and the problems in the current system, the federal government is proposing as the basis for public debate and discussion with the provinces the setting of two national goals:

- to remove disincentives from the current system that discourage welfare recipients from getting a job, and obstacles that prevent persons with disabilities from living independently, while at the same time ensuring that support is available for individuals unable to work;
- to set as a target the reduction of child poverty, recognizing that progress on this goal is directly linked to employment for parents.

## Approaches to reform

### Possible first steps

Before turning to possible approaches to long-term reform, it is worth considering more immediate action on the problems discussed earlier. A starting point might be for the federal government to change current CAP provisions that would make them more flexible and supportive of the kinds of initiatives provinces would like to take to reduce disincentives to work and to address better the needs of families with children.

Changes to CAP could in fact help to give provinces more latitude to pursue new priorities. They could tilt their social assistance and services more towards child development measures, such as enabling the delivery under CAP of nutrition programs. They could consider improving opportunities for persons with disabilities to be more independent, with better access to and management of the supports and services they need.

In the past, provinces had to consider the tradeoffs between innovation and continuing to receive CAP dollars. Even with the ceiling on CAP funding, more flexible rules could give the provinces room to innovate and implement changes that would improve services while saving money.

There might also be opportunities for both levels of government to cooperate to reduce the administrative overheads in the system, for example, by streamlining needs tests and financial procedures, as cost-saving measures. Other promising ideas for shifting money from administration to people include:

- developing “single window” offices so that clients could access social security programs from all levels of government in one location, as described more fully in Chapter 2;
- greater use of technology to provide information and accelerate routine transactions; and
- sharing information among government departments and agencies to prevent improper simultaneous access to programs which are intended to be separate, or to recover money mistakenly paid out.

## **Longer-term approaches to reform**

### **1. A universal Guaranteed Annual Income?**

At Parliamentary hearings last spring considering the broad direction of social security reform, some witnesses advocated replacing a wide variety of federal and provincial income support programs with a single, integrated Guaranteed Annual Income (GAI).

Over the years, the phrase “guaranteed annual income” has been used to describe an assortment of programs and proposals. Generally, however, the idea of a GAI implies a program that would guarantee all families a basic minimum level of income whether or not they worked. Since it would be universal, it would “de-stigmatize” the receipt of benefits. Many have recommended a GAI on the grounds that it would provide more money to the poor. They have also argued that a single, integrated benefit would be simpler and cheaper to administer, and more effective than today’s tangled, multi-layered web of programs and services.

One of the first detailed proposals for a made-in-Canada GAI emerged from the 1973 federal Orange Paper on Social Security Review. As well, in the early 1970s, the Québec Commission of Inquiry on Health and Social Welfare advocated a three-tiered provincial GAI. Later, the 1986 Macdonald Royal Commission on the Economic Union and Development Prospects for Canada proposed a Universal Income Security Program (UISP). It was designed to streamline and integrate existing income assistance programs. However, even with relatively modest benefit levels, implementing such a program today would cost several billions of dollars more than the total of existing programs.

It could be argued that Canada currently has a de facto guaranteed minimum income provided through a mixture of social assistance, UI, and tax credits. Realistically, however, converting these programs into a single GAI that provided all Canadian adults with a basic level of government income is not practical. A benefit that would be considered adequate today would be far more costly to provide than in earlier decades. But more importantly, limited government money can probably be spent more effectively through better-targeted programs that would reduce child poverty, and contribute to the goal of increasing employment.

## **2. A block fund**

It has been suggested that in view of both the provinces' desire for greater flexibility, and the federal government's need to limit its fiscal exposure, a better approach would be to replace the current CAP system based on cost-sharing, with a new block fund for social assistance and social services. Under this approach, the federal government would transfer an annual amount to the provinces, as it currently does in the areas of health and post-secondary education. Provinces would have considerably more flexibility to design their welfare systems according to their own priorities and needs. Such a block fund could be unconditional as in the case of the transfer to the provinces for post-secondary education, or could be conditional on provinces' conforming to agreed national principles or objectives.

The key issues for public debate and discussions with provincial governments regarding such an approach are whether there are reasons why funding in this area should be linked to national principles, and if so, what these principles might be. Would it be possible to agree on national principles that reflect the two proposed goals of increasing employability and reducing child poverty? Another issue for discussion would be whether and how a block fund could be designed so as to provide reasonably comparable federal financial support across Canada for comparable clients of social assistance and social services.

## **3. Redirecting funding to new priorities**

A third approach to long-term reform would be to restructure current programs specifically to pursue more actively the proposed goals of increasing employment and reducing child poverty.

For example, federal government spending on CAP and the Child Tax Benefit will be about \$13 billion in 1996-97. If net provincial spending in these areas is included (excepting provincial expenditures that are not eligible for CAP contributions under the current rules), total projected expenditures in that year would exceed \$25 billion. Should the federal spending be redirected to achieve agreed national goals? Would the provinces be interested in redirecting their expenditures to achieve the same goals? How might this be done?

Potential priority areas directly linked to the goals proposed in this Discussion Paper include:

- better income support for low-income families with children;
- working income supplement for working poor families;
- child care or child development initiatives;
- child support initiatives;
- employment development services for social assistance recipients;
- improving access to disability-related supports and services; and
- continuing support for social services.

The approaches listed are intended to provide an illustrative “menu” of priority initiatives which could support the proposed goals of increasing employment and reducing child poverty. The purpose of providing the menu is to stimulate public debate and discussions with provinces since priorities in these areas cannot be set by the federal government on its own. The kind of restructuring of programs which this approach would involve could only occur if Canadians and their governments agree on the nature of the reallocation it would entail. This could only be determined by Canadians and individual provincial governments after a thorough debate. Following is a brief description of what each element of the “menu” might entail:

*1. Better income support for low-income families with children*

Better income support for low-income families with children could be provided through a strengthened federal Child Tax Benefit. One way to accomplish this would be through better targeting of the current Benefit to low-income families. This would mean that middle- and higher-income families would receive a smaller benefit, or no benefit at all. In addition, some funding could be reallocated from federal CAP spending to the increased benefit. The aim would be to provide low-income families with as much as \$1,000 to \$1,500 extra per child annually.

As part of this approach, the federal government would need to work with the provinces to ensure that families on social assistance get the full benefit from this reform. One possibility might be to integrate the provincial social assistance benefits made on behalf of children (on average, about \$3,000 per child) with a strengthened Child Tax Benefit.

Another approach would have the same objective as a proposal made recently by the Ontario government “to take kids off welfare”. The Child Tax Benefit and social assistance spending on behalf of children could be combined to create a new benefit for children of all low-income families, regardless of the family’s source of income — wages, welfare or unemployment insurance. However, this approach would expand the number of recipients, thus requiring significant extra funds to be reallocated from elsewhere, or reducing benefits for some or all recipients.

The advantage of pursuing one of these approaches, provided the necessary funds could be reallocated from existing budgets, is that it would give low-income families a secure source of income support for their children, and put parents in a stronger position to leave social assistance for the job market.

*2. Working income supplement*

Another priority might be to reallocate funds to increase the Working Income Supplement for low-income families. An improved low-wage supplement for the working poor would widen the benefit of working over welfare. This could be done as a first step towards an integrated and expanded child benefit, or on its own.

Depending on the exact formula used, the maximum Working Income Supplement could be doubled to a maximum of \$1,000 per low-income family at a cost of about \$200 million per year. This could be reallocated from child tax benefits currently paid to higher-income families. Moreover, it would provide increased incentive for those on welfare or UI to leave such programs; it could, for example, help cover some of the costs of working, including child care expenses.

### *3. Child care and child development*

As discussed earlier in Chapter 2, another approach which would help achieve both the employment and child poverty goals would be to expand the number of subsidized child care spaces available for low-income families. Where provincial governments agree, this might link child care programs to preventive, community-based child development and family support programs.

### *4. Child support*

A further possibility would be significant improvements to child support systems. A major source of child poverty is family breakdown followed by inadequate or non-existent support payments by the non-custodial parent (usually the father) to the parent with the custody of the children (usually the mother). A 1992 study by the Economic Council of Canada found that after divorce, women's family incomes plunge an average of 39 per cent, while those of men climb by 7 per cent on average.

Many lone parents do not receive support payments. For many of those who do, the amounts are often too low to meet their children's needs, and frequently not provided in a timely manner. In 1991, monthly support payments averaged less than \$300 per child. This amount does not reflect an equitable or adequate share of expenditures on children. Many lone parents report that they rarely or never receive the support payments that a court had ordered their ex-spouse to pay.

Currently federal and provincial governments are discussing the possibility of instituting standardized guidelines for calculating awards, based on the non-custodial parent's income, and the number of the children. The tax treatment of child support is an issue now under consideration by the government. Over the past summer, the Task Group on the Tax Treatment of Child Support consulted with a wide spectrum of interested parties.

As well, provincial authorities in recent years have made solid strides in the enforcement of court orders through measures such as automatic payroll deduction. A joint federal-provincial-territorial task force of justice officials is scheduled to report this fall on the adequacy and enforcement of child support. Reinforced with more adequate support orders and more effective enforcement, custodial mothers currently on welfare would have a greater opportunity to leave the welfare system and move towards self-sufficiency.

In the long term, governments may wish to review the experience of jurisdictions outside Canada that have been testing systems that provide an assured minimum level of child support for custodial mothers, who currently form a major component of Canada's long-term social assistance recipients.

### *5. Employment development services for social assistance recipients*

The need to improve the access of social assistance recipients to employment development services was discussed in Chapter 2. Such initiatives would potentially decrease the number of people receiving social assistance who are able to work, thus reducing dependency. An issue for governments is how to invest scarce dollars now in these kinds of investments which will have a long-term payoff both for individuals' self-reliance and for government budgets.

### *6. Greater independence for persons with disabilities*

Another priority area that should be addressed through reform of current programs is promoting independent living for persons with disabilities. Many people with disabilities need disability-related supports and services to enable them to participate in society and the economy. In many provinces, as noted earlier, access to these supports depends on eligibility for social assistance. Thus, some people with high disability-related expenses fear entering the labour force, and permanently losing the supports and services they cannot afford on their own.

One way to address this issue would be to separate access to disability-related supports and services from eligibility for income assistance. Québec has taken the lead in shaping its programs according to this principle. Many proposals for applying this approach more broadly have been made, most recently by the Roeher Institute, which could offer a starting point for public debate and discussions among governments.

We must also look into improving the portability of disability-related supports and services. People should be able to keep such aids, such as attendant care, as they move from one setting to another, whether from home to school to work, or from institutions to the community, or within and between provinces.

Still other ways to foster independent living for persons with disabilities and remove disincentives to employment in existing programs deserve attention. There is a growing consensus that measures to integrate persons with disabilities into the economic and social mainstream are an excellent investment for individuals, their families, and society as a whole. In recent years, the federal and provincial governments have been emphasizing support for community integration — for example, the substitution of community-based programs for outmoded institutional care, research and development into the application of new technologies, and experiments with innovative models of independent living and working. These approaches need to become a regular part of overall social policies and programs.

### *7. Continuing support for social services*

In considering how to reallocate current CAP funding, it would be necessary to protect the funding of a wide range of vital social services, including services for seniors and health-related spending. One approach would be a block fund for these social services, even if block funding is not adopted as the general approach to reforming CAP.

# Conclusion

## **What can be accomplished by reform?**

The purpose of this Paper is to stimulate interest and debate among Canadians over the coming months about how, together, we can reform one of our great national institutions: the social security system. It's a system — a set of programs and services — that reflects the best about who we are, our compassion for those less fortunate in our society, a commitment to equality of opportunity and our belief in the dignity of work.

But as times change, so must our institutions. Without exception, provincial governments have recognized this. Many already have launched discussion papers of their own, setting out reform priorities. This is the federal government's contribution. It is, in part, an effort to knit together a series of provincial discussions into a national conversation. We want to get Canadians thinking, talking and debating the issues with each other and their elected representatives.

The previous chapters have described the current system and why it no longer fits the bill. The case is made that we need a comprehensive reshaping of our social programs so that they help people get and keep jobs as well as protecting the vulnerable.

While this is a discussion paper, not a government policy blueprint, it sketches out possibilities for new directions. Our goal is to move beyond the debate about how much we are spending, to an exploration of what our social security system should deliver in the Canada of today and tomorrow. It is not mainly a matter of how much we do, but whether we are doing the right things.

To that end, this Discussion Paper sketches the contours of a system aimed at actively helping people in need to create new opportunity for themselves and to achieve self-sufficiency. For those who are able to take advantage of this opportunity, the social security system should make available the right tools to acquire the support, advice and skills to make it on one's own. The best social security system is like a good health clinic – it fixes what's wrong, counsels on prevention, and sends you on your way.

The Paper proposes that if tomorrow's social security system is truly to create opportunity and promote self-reliance, we must focus on three core elements — **working, learning** and **security**. Woven through this Paper are clear messages about the kinds of change we believe would improve our employment services, our learning system and our security programs to gear them more effectively towards helping individuals achieve the satisfaction and dignity of work.

## How to achieve these reforms

This Paper launches the first phase of reform: a discussion and dialogue about the desired changes in our social security system, the priorities for action and the best way to spend the money we invest in the system. Which issues ought to be addressed first, which ought to wait until more resources are available and which would benefit from experimentation and pilot projects before broader initiatives are launched? To assist in this debate, the federal government will publish a series of supplementary technical papers following release of this Discussion Paper.

The big issues raised in this document touch the lives of every Canadian. Over the coming months, the House of Commons Standing Committee on Human Resources Development will hold extensive public hearings to discuss the reform. This will give Canadians a forum in which to participate. Business and labour, academics, Aboriginal organizations, organizations representing women and organizations for persons with disabilities, as well as voluntary and community groups are encouraged to speak up. All are invited to share in the responsibility of reform.

While the Standing Committee will serve as the primary focal point for contributions and reactions, the federal government expects many local groups will organize their own events and debates about the issues and options for social security reform.

Individual Canadians will have a chance to have their say. Members of Parliament will be consulting with their constituents. A workbook will be widely available to help people work their way through the issues and send in their comments for review by the Minister of Human Resources Development and by the Standing Committee.

The report of the House of Commons Standing Committee will synthesize the outcome of this broad dialogue. After further public debate and negotiations with the provinces, legislation will be introduced in Parliament to begin the process of implementing reform. Thus, the foundations will be laid for a new social security system that will take Canadians with confidence into the 21st century.



# Key issues for discussion

This Discussion Paper has raised a wide variety of issues relating to social security reform, and suggested many possible options for reform. This Annex pulls together many of the questions about which the federal government would like to encourage public debate.

## **Working: Jobs in a new economy**

### **Employment development services**

The first set of questions deals with how to build an employment development services system that increases substantially Canada's investment in people.

- Should funds be reallocated from Unemployment Insurance and administrative streamlining to pay for enhanced employment development services? If so which employment development services should be the priorities for improvement? How should individual elements be developed?
- Would employment development services be more accessible and effective if they were available through a "single window" of locally-managed, community-based structures? What range of programs and services should be included? What should the roles of the federal and provincial governments, business, labour, trainers and community groups be in the delivery of these services?
- How can employment development services become more accessible and effective for people such as social assistance recipients and persons with disabilities?

### **Unemployment Insurance**

The second set of questions deals with helping more people become and remain employable through reform of the Unemployment Insurance program.

- There are two approaches suggested for the reform of the UI program:
  1. Design a new employment insurance program that provides basic insurance to occasional claimants and adjustment insurance for frequent claimants, along with improved access to employment development services? or
  2. Adjust the existing Unemployment Insurance program by increasing entrance requirements and/or reducing the level or duration of benefits?
    - Which approach is the best choice for helping Canadians become and remain employable? Or should elements of the two approaches be combined?

**Under the first approach:**

- Is the division of Unemployment Insurance claimants into occasional and frequent claimants the right way to go? If so, how should occasional and frequent claimants be defined?
- What is the appropriate level of benefits under the adjustment insurance system? Should adjustment insurance benefits be income tested? If so, is assessment on the basis of family income appropriate?
- Should willingness to participate in employment development services be a condition for the receipt of income support under adjustment insurance?
- How should seasonal workers and regions with high numbers of seasonal workers be helped?

**Under the second approach:**

- Should the number of weeks required to qualify for Unemployment Insurance be increased? If so, by how much?
- Or, should benefits be reduced, by shortening the duration and/or lowering the level of benefits?

**Under either approach:**

- How should the Unemployment Insurance program consider the needs of workers in nonstandard employment (part-time, multiple job holders, self-employed)?

**Financing Unemployment Insurance and Employment Development Services**

Employers and workers alike have expressed concerns about the way Unemployment Insurance programs and employment development services are funded.

- How can effectiveness and fairness in funding the Unemployment Insurance program and employment development services be increased?
- Should UI premiums be set to ensure that they are not increasing when a recession is deepest?
- Would it make sense to build up a surplus in the Unemployment Insurance Account during growth periods to provide a cushion against the need to raise premium rates (to prevent or reduce a deficit in the Account) during downturns?
- Should employer premiums be based on their total payroll?
- Should “experience rating” be introduced for Unemployment Insurance premiums for employers and/or employees, thus making the rates they pay dependent on how often they have used the program in the past?
- Keeping in mind that both the reduction of payroll taxes in the form of Unemployment Insurance premiums, and expanded and enhanced employment development services will contribute to job creation, what is the best way to allocate “savings” from UI reforms between:
  - reduced premiums for employers and employees, and
  - enhanced employment development services for more people?

### **Meeting the needs of working parents**

Social security reform promoting employment should take the changing needs of working parents into account. The federal government sees child care as a priority for the reform of social programs and as part of a preventative approach to social problems at the earliest point of life.

- How should the federal government support the provinces on the development of child care services?

### **Learning: Making lifelong learning a way of life**

#### **Evolving roles in supporting lifelong learning**

Lifelong learning is increasingly important as the need for a highly-skilled workforce continues to grow and as skills need more frequent updating. The federal government is currently contributing more than \$6 billion per year in transfers to provinces in support of post-secondary education, one major part of lifelong learning.

- Two approaches are proposed for dealing with the future of the cash portion of the federal transfers to the provinces under the Established Programs Financing arrangements for post-secondary education (EPF-PSE). Which would be more effective in preserving and expanding access to higher education:

- maintaining the current EPF-PSE arrangements, allowing the cash portion of the transfer to decline gradually, disappearing in about a decade; or
- shifting federal spending from support to institutions via provinces towards an expanded and permanent system of aid to individual learners based on loans and grants?

### **Financing lifelong learning**

The federal government is considering a new type of student loan that would be repayable only after the borrower has left college or university and entered the work force. People would pay off these Income Contingent Repayment Loans (ICR loans) as they developed the financial capability of doing so.

- Should repayment of student loans be “income contingent”, that is, linked to the borrower’s ability to pay? If so, how should such a program work?
- Should the government consider increased flexibility in Registered Retirement Savings Plans to help individuals and their families meet the costs of learning? Are there other ways to achieve this goal?

### **Working with provinces on related issues**

Although provincial governments are responsible for education, the federal government, the private sector, individual learners, and others, each have a stake in the benefits of improved lifelong learning.

How best can these partners cooperate to:

- Help young people make the often difficult transition from school to work?
- Improve the portability of learning credentials across Canada? How can we streamline the process of recognizing foreign credentials across Canada?
- Support the introduction of new technologies into the learning system to improve effectiveness, expand access and prepare learners for a knowledge-based economy?
- Ensure that Canada develops stronger educational linkages and student exchanges with its competitors and trading partners to prepare for an increasingly globalized economy?

## **Security: Building opportunity for people in need**

### **Options for reform**

The federal government proposes as the basis for public debate and discussion with the provinces the setting of two national goals:

- 1.** to remove disincentives from the current system that discourage welfare recipients from getting a job, and obstacles that prevent persons with disabilities

from living independently, while at the same time ensuring that support is available for individuals unable to work; and

**2.** to set as a target the reduction of child poverty, recognizing that progress on this goal is directly linked to employment for parents.

- Are these the appropriate goals for reform of our social security programs?
- There are a number of possible approaches to reform. Although any redirection would have to be worked out with the provinces, as an early first step for public discussion and debate, should the provisions of the Canada Assistance Plan (CAP) be changed to help give provinces more flexibility to pursue their priorities (e.g., employment and child development programs)? With block funding, how could we ensure reasonably comparable federal support across Canada for comparable clients of social assistance and social services?
- How should the Canada Assistance Plan be changed in the longer term, keeping in mind the objective of greater fairness, and the need for reform to live within the fiscal constraints to be implemented in 1996-97 and beyond?

**Options for discussion include:**

- Introduction of a Guaranteed Annual Income?
- Replacing the existing CAP system with a new block fund for welfare and social services to give provinces more flexibility to design their systems according to their own priorities and needs? Should national principles be attached to such a block fund? If so, what should they be?
- Redirecting the federal portion of this funding to new priorities; keeping in mind the goals mentioned above, which of the following areas or combinations of areas are desirable as longer term approaches for federal spending:
  - increasing Child Tax Benefit payments for children in low-income families?
  - improving the Working Income Supplement for low-income working families?
  - improving programs aimed at assisting persons with disabilities to live independently and removing disincentives to employment?
  - improving access of social assistance recipients to employment development services?

## NOTES

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